Supreme
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IN THE

Supreme Court of the United States

OCTOBER TERM 1979

No. 79-669

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION,
CRYSTAL CHEMICAL COMPANY,
AND HELENA CHEMICAL COMPANY

Petitioners,

v.

ROHM AND HAAS COMPANY,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

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October 26, 1979

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DAWSON CHEMICAL COMPANY, INC., CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, INC. and HELENA CHEMICAL COMPANY, hereby petition that a writ of certiorari be issued to review the Judgment and Opinion of the United States Court of Appeals for the Fifth Circuit, entered July 30, 1979.

OPINIONS BELOW

The Opinion of the United States Court of Appeals for the Fifth Circuit is reported at 599 F2d. 685, and is printed

in the Appendix at page A.1.[1] The Opinion of the United States District Court for the Southern District of Texas, Houston Division, is reported at 191 USPQ 691, and printed in the Appendix at page A. 87, and a Supplemental Opinion, unreported, is printed in the Appendix at page A. 129.

JURISDICTION

The Judgment of the Court of Appeals for the Fifth Circuit was entered on July 30, 1979. This petition for writ of certiorari is being filed within ninety (90) days of that date. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

QUESTION PRESENTED

Does § 271(d) of the Patent Laws permit the owner of a method patent to monopolize and reserve to himself the sale of an unpatented non-staple product which is used in the practice of the patented method?

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Constitution of the United States, Article I, Section VIII, Clause 8:

> The Congress shall have power . . .
>
> To promote the progress of science and useful arts, by securing for a limited time to authors and inventors the exclusive right to their respective writings and discoveries. . . .

35 U.S.C. § 271

> (a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any

[1] "A" followed by a number indicates a page in the appendix.

> patented invention, within the United States during the term of the patent therefor, infringes the patent.
>
> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> (c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributor infringer.
>
> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

STATEMENT OF THE CASE

This is a suit for patent infringement brought by Respondent Rohm and Haas against Petitioners, the Court having jurisdiction under 35 U.S.C. § 1338(a), which suit was dismissed on Motion for Summary judgment, based solely on facts admitted or stipulated by the parties, (R. 43)[2] the District Court holding that Rohm and Haas had misused its patent. The United States Court of Appeals

[2] "R" followed by a number indicates a page of the Record on Appeal filed in the Court of Appeals.

for the Fifth Circuit reversed and remanded for a trial on the merits, holding that the activities of Rohm and Haas did not amount to patent misuse, being permitted by the provisions of 35 U.S.C. § 271(d).

The patent in suit, United States Patent No. 3,816,092 (hereinafter the Wilson Patent) describes and claims a method of selectively controlling weeds in crops such as rice by applying to the weeds and crops the chemical compound 3,4 dichloropropionanalide (hereinafter "propanil"). Propanil itself is not patented, the patent on it, No. 3,382,280, belonging to Monsanto Company, having been held invalid, in litigation with Rohm and Haas, *inter alia* because propanil was described in or taught by the prior art (*Monsanto Company* v. *Rohm and Haas Company*, 312 F. Supp. 778 (E.D. Penn. 1970) affirmed 456 F.2d 592 (3 Cir.) cert. denied 407 U.S. 934 (1972)).[3]

Rohm and Haas does not itself practice the patented process, but makes propanil and sells it in containers bearing instructions for farmers and others to perform the process. By operation of law, purchasers of propanil thus receive implied licenses to use the patented method. No separate payment is received by Rohm and Haas for the license; it derives its profit solely from the sale of propanil. Rohm and Haas has refused to grant any other licenses under its patent, so that the only way it has been possible for users to obtain a license to perform the patented process has been to buy propanil from Rohm and Haas. The license is thus tied to the purchase of the unpatented material.

[3] Petitioners Dawson Chemical Company and Crystal Chemical Company were also sued by Monsanto for infringement of the propanil patent. The Fifth Circuit Court of Appeals, in *Monsanto Company* v. *Dawson Chemical Company, et al.*, 443 F.2d 1035 (1971), cert. denied 405 U.S. 934 (1972), reversed the District Court's holding of validity of the patent.

Petitioners sold propanil for application to rice crops before Rohm and Haas received its patent. When the Wilson Patent was issued, Rohm and Haas brought this suit, charging Petitioners with inducing infringement in violation of 35 U.S.C. § 271(b) and with contributory infringement in violation of 35 U.S.C. § 271(c). Petitioners asked Rohm and Haas for permission to grant licenses under the patent to purchasers from Petitioners, but Rohm and Haas refused, stating that licenses would be granted only with purchases of propanil from Rohm and Haas. Recognizing this attempt to monopolize propanil as a misuse of the Wilson patent which rendered it unenforceable, Petitioners have continued to sell propanil in containers which bear recommendations and instructions for application to rice crops.

It is undisputed that if propanil is a staple material, having a substantial non-infringing use, requiring patent licensees to purchase the unpatented material from Rohm and Haas is a misuse of the Wilson Patent. However, Rohm and Haas asserts that it has the right to do this because propanil is a non-staple, having no substantial non-infringing use, and forms a material part of the patented invention. Such right is alleged to have been established by the enactment, in 1952, of 35 U.S.C. § 271(d).

Rohm and Haas says it is only doing that which is permitted by § 271(d):

(1) deriving revenue from acts which if performed without its consent would constitute contributory infringement, (i.e., selling propanil),

(2) licensing others (its distributors) to sell propanil, and

(3) enforcing its patent rights against those who sell propanil,

and therefore it is not guilty of misuse.

Petitioners point out, however, that Rohm and Haas is not "otherwise entitled to relief", as required by § 271(d), because, in addition to the three activities authorized by § 271(d), it is doing something else not authorized — compelling those who wish to practice the patented invention to purchase propanil from Rohm and Haas, thereby tying a license under the patent to the purchase of the unpatented material.

Rohm and Haas contends, and the Court of Appeals agreed, that the legislative history of § 271(d) supports their position that it was the intent of Congress to allow such a tying arrangement in the case of non-staple materials.

Petitioners submit that the legislative history does not support this view, and that this Court has on numerous occasions ruled to the contrary. Moreover, such a view fails to deal with the objectives of both the patent and the antitrust laws.

REASONS RELIED ON FOR THE ALLOWANCE OF THE WRIT

1. The Court of Appeals' construction of § 271(d) of the Patent Laws as allowing the owner of a method patent to require, as a condition for a license under the patent, the purchase from the owner of a non-staple material used in the practice of the method, is in conflict with this Court's repeated condemnation of tying arrangements.

2. The specific question of whether Congress, by enactment of § 271(d) of the Patent Laws, extended the scope of patents to cover unpatented non-staple materials has not been, but should be, decided by this Court.

3. The holding of the Fifth Circuit Court of Appeals is in conflict with the holding of the Second Circuit Court

of Appeals in *Ansul Company* v. *Uniroyal, Inc.*, 448 F.2d 872 (1971).

The essence of the holding by the Court of Appeals is that 35 USC § 271(d) permits the owner of a method patent to monopolize the sale of an unpatented non-staple product with the same effect and to the same extent as if the patent were on the product rather than on the method or process involving its use.

Petitioners submit that this Court and other federal courts have on numerous occasions ruled that the use of a patent to effect a monopoly in either staple or non-staple unpatented products is unlawful. Petitioner further submits that § 271(d) of the Patent Act is not now (more than 25 years after its enactment) to be construed as having made an heretofore judicially unrecognized change in the law spelled out so explicitly by this Court in the *Mercoid* cases[4] in 1944. The decision by the Court of Appeals would fundamentally extend the scope of exclusive rights that are conferred by the patent grant and is in conflict with the opinions of this Court after the enactment of § 271(d), as they relate to the misuse of patents.

HISTORY OF THE MISUSE LAW

The law of patent misuse came about as a limitation on the doctrine of contributory infringement, which had its origin perhaps 100 years ago as court-made law, giving patent owners a right to bring suit against those who contributed to an infringement by furnishing to infringers unpatented goods used in the invention. The contributory infringement doctrine reached its broadest scope in *Henry* v. *A. B. Dick Co.*, 224 U.S. 1 (1912), when the Court enun-

[4] *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944) and *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944).

ciated principles enabling a patentee to tie the right to use a patented machine to the purchase of unpatented supplies. Five years later, however, in *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917), the Court reversed itself, and denied relief to a patentee who required the purchaser of a patented motion picture machine to use in the machine only the patentee's unpatented film, holding that this was an attempt to create a monopoly outside of the patent (243 U.S. at 518).

Then in *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27 (1930), the Court applied the patent misuse doctrine to bar a suit for contributory infringement by a patentee who had expressly required, as a condition for a license under the patent, that licensees purchase a product from the patentee which was a necessary but unpatented component of the invention, holding that the patent owner had no right to be free from competition in the sale of the unpatented component.

The rule of *Carbice* was found equally applicable in *Leitch Manufacturing Co.* v. *Barber Co.*, 302 U.S. 458 (1937), to attempts by patentees to achieve the same result without an express restriction, by giving an implied license to those who purchased the components from the patentees and suing all others as well as their suppliers.

In holding that the patent monopoly could not be extended to unpatented goods, neither these nor other decisions by the Supreme Court before the *Mercoid* cases made any distinction as to whether the unpatented goods were a staple, i.e., had uses other than in the invention, or were a non-staple, having no substantial use except in an infringement of the patent. It was not until the *Mercoid* cases that the Court specifically addressed this question.

The patent in the *Mercoid* cases covered a heating system, one element of which was a switch which had no use except in the patented system, and which was itself unpatented. The patent owner, Mid-Continent, granted an exclusive license to Minneapolis-Honeywell to make, use and sell, and to sublicense others to make, use and sell, the system covered by the patent. Minneapolis-Honeywell did not sell the system, but sold only the stoker switches, and granted licenses to make and use systems covered by the patent only with the switches purchased from Minneapolis-Honeywell. Royalty payments were based upon sales of switches.

Mercoid was charged with contributory infringement because it manufactured and sold switches specially adapted for use in the patented heating system. The Court denied relief, holding that it was misuse to require those who wished to make the patented system to buy the switch from the patentee's exclusive licensee. The Court noted that the switch was a non-staple and that, but for the misuse, Mercoid could have been enjoined as a contributory infringer. Then, in dictum, the Court commented that the result of its decision was to limit substantially the doctrine of contributory infringement and to raise the question as to whether any residuum may have been left (320 U.S. at 669).

The consternation created by this dictum resulted in efforts to enact a statutory law of contributory infringement. However, it was recognized that such a law would be ineffective in the absence of provisions expressly exempting certain activities from the antitrust laws and the law of patent misuse; thus, § 271(d) was enacted.[5]

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[5] Hearings before Subcommittee No. 3 of the Committee on the Judiciary, House of Representatives, 82nd Cong. 1st Sess. 173 (1951), a copy of pp. 150-176 being attached hereto at A.142-176.

CONFLICT WITH SUPREME COURT DECISIONS

The Court of Appeals observed that "the legislative history is not crystal clear", that petitioners' reading of it is plausible (A. 77-78), and that this Court's opinions in the *Aro* cases[6] "probably cut against" its view (A. 84), but nevertheless concluded that the intent of Congress in enacting § 271(d) was to "provide for a patentee's right to exclude others and reserve to itself, if it chooses, the right to sell nonstaples used substantially only in its invention" (A. 80).

This Court, in the *Aro* cases, while not explicitly construing § 271(d), made it very clear that it still considers that the use of a patent to monopolize unpatented non-staple components is illegal.

In *Aro II*, twelve years after the enactment of § 271(d), this Court was presented with the argument that the patent owner could tie the right to use a patented convertible top to the purchase of the unpatented non-staple and specially adapted fabric replacement parts from a licensee under the patent. The Court held that such provisions "stand condemned by a long line of this Court's decisions delimiting the scope of the patent grant" (377 U.S. at 497).

In *Aro I*, on the authority of *Mercoid*, the Court rejected the argument that patent protection should be extended to the "essential" or "distinguishing" part of the patented combination, stating:

> "We cannot agree. For if anything is settled in the patent law, it is that the combination patent covers only the totality of the elements in the claim and that no element, separately viewed, is within the grant.

[6] *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336 (1961) (Aro I), and *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476 (1964) (Aro II).

> See the *Mercoid* Cases, *supra* (320 U.S. at 667; 320 U.S. at 684). The basic fallacy in respondent's position is that it requires the ascribing to one element of the patented combination the status of patented invention in itself. Yet this Court has made it clear in the two *Mercoid* Cases that there is no legally recognizable or protected 'essential' element, 'gist' or 'heart' of the invention in a combination patent." (365 U.S. at 344-345).

In his concurring opinion in *Aro I*, Justice Black, in reference to § 271, stated (365 U.S. at 347-350):

> "The language and history of that Act show plainly: (1) that Congress wanted to continue in force, *but not expand, the judge-made doctrine of contributory infringement* under which a person who knowingly aids, encourages or abets the direct infringement of a patent is to be held liable as a contributory infringer; (2) that Congress did not want patentees to be barred from prosecuting their claims for direct infringement merely because they exercised their right to assert a claim in or out of court for contributory infringement;[4] (3) *that the long-existing scope of a patentee's monopoly rights was not to be expanded beyond what it had always been, that is, the exclusive right to make, use or sell a patented invention during the life of the patent*" (emphasis added).

and in referring specifically to § 271(d), Justice Black stated (fn. 4):

> "This provision was designed specifically to prevent the *Mercoid* case from being interpreted to mean that any effort to enforce a patent against a contributory infringer in itself constitutes a forfeiture of patent rights."

Although the specific question, of whether § 271(d) overruled the *Mercoid* case on the use of a patent to tie un

patented goods, was not actually presented to the Court for decision in the *Aro* cases, it is plain that the Court would have struck down any scheme for monopolizing an unpatented non-staple product by conditioning licenses to use the patented method involving such product upon the purchase of the unpatented product from the patent owner. To have sanctioned the exercise of such exclusive rights in an unpatented product would have been to expand the long-existing scope of the exclusive rights conferred by the patent, but that, as stated by Justice Black, was precisely what had not been provided for by § 271. Although the opinion of the Court by Justice Whittaker contains no reference to § 271(d), it was in full accord that the exclusive rights conferred by a patent do not extend to exclusive rights in an unpatented element, however essential it may be to the patented combination, and however difficult it may be for a patentee to profit from his invention.

This doctrine is also made clear in four other cases decided since 1952. This Court, in *United States* v. *Loew's Inc.*, 371 U.S. 38, 9 L. Ed. 2d 11, 83 S. Ct. 97 (1962) cited *Mercoid* and like cases in support of its reiteration of the doctrine that a patentee who utilizes tying arrangements will be denied relief against infringements of its patent:

> "These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles." 371 U.S. at 46, 9 L. Ed. 2d at 18-19.

More recently in *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 23 L. Ed. 2d 120, 89 S. Ct. 1562 (1969) the Court stated:

> "Among other restrictions on him, he [the patentee] may not condition the right to use his patent on the licensee's agreement to purchase, use, or sell, or not to purchase, use, or sell, another article of commerce not within the scope of his patent monopoly." 395 U.S. at 136, 23 L. Ed. 2d at 155.

In *Deep South Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1971), the Court held that a defendant who exported unpatented parts of a patented combination was not guilty of infringement. Citing *Mercoid,* the Court premised its reversal on the "unassailable" rule that "a patent on a combination is a patent on the assembled or functioning whole, not on the separate parts". (406 U.S. at 528.)

In *Blonder-Tongue Labs, Inc.* v. *University of Ill. Foundation,* 402 U.S. 313 (1970), the Court, while "recognizing the patent system's desirable stimulus to invention," cited *Mercoid* as one of a "series of decisions in which the Court has condemned attempts to broaden the physical or temporal scope of the patent monopoly". (402 U.S. at 343.)

The direct conflict between the holding of the Court of Appeals and the repeated declarations of this Court as to the scope of protection to be afforded a patent demands the attention of this Court.

CONFLICT BETWEEN COURTS OF APPEAL

No court of appeals decision since the enactment of § 271 has specifically discussed whether § 271(d) allows the owner of a method patent to monopolize non-staples used in the practice of the method. However, the courts have repeatedly condemned as patent misuse situations where a patent license could be obtained only by purchasing the unpatented materials from the patent owner. See *National Foam System, Inc.* v. *Urquhart,* 202 F.2d 659, 663-664 (3 Cir. 1953); *Ansul Company* v. *Uniroyal, Inc.,* 306 F. Supp. 541 (S.D.N.Y. 1969), aff'd on misuse issue 448 F.2d 872

(2 Cir. 1971); *Preformed Line Products Co.* v. *Fanner Mfg. Co.*, 328 F.2d 265 (6 Cir. 1964); and *McCullough Tool Company* v. *Well Surveys, Inc.*, 343 F.2d 381 (10 Cir. 1965).

Presumably the patent owners in these cases did not take the position which Rohm and Haas has taken in this case, for the court decisions make no mention of the effect of § 271(d), nor of whether the unpatented goods are staples or non-staples. The rule which Petitioners here seek was applied uniformly, even when the unpatented goods clearly were non-staples, as in *McCullough* and *Ansul*.

Ansul is particularly pertinent, since the patent claim was to a method for applying a chemical to plants to control their growth, and the patent owner Uniroyal was found guilty of misuse in using the method patent to reserve to itself the sales of the unpatented chemical. The chemical had no commercial use other than in the patented method. *Ansul Company* v. *Uniroyal, Inc.*, 301 F.Supp. 273, 277 (S.D.N.Y. 1969). The Court of Appeals stated:

> "Since Uniroyal could no longer lawfully use its method (use) patent monopoly to secure a monopoly over sales of the unpatented product, it came under an obligation (if it wished to avoid the charge of patent misuse) to license its patented use of the unpatented product for those who wished to buy the product from other manufacturers." (448 F.2d at 882, fn. 4).

There is therefore a clear conflict between the Second Circuit's *Ansul* decision and the decision of the Fifth Circuit in the present case.

LEGISLATIVE HISTORY

The Court of Appeals in the present case thought the weight of the legislative history of § 271 favors Rohm and Haas' reading of the statute. It is apparent that neither this Court nor the courts of appeal cited above reached this conclusion. Petitioners submit that a careful reading

of the transcript of the Hearings leads one to the inevitable conclusion that it was the intent of Congress to insure that patentees could sue contributory infringers, could license others to sell unpatented non-staple components of the invention, and could themselves sell the unpatented non-staple components, and that these acts would not be construed to be misuse. However, Mr. Rich, upon whose testimony the Court of Appeals principally relied, expressly stated that

> "If he has gone beyond those and done other acts which could be misuse, then the misuse doctrine would be applicable." (p. 175 of Hearings, A. 192).

In the present case Rohm and Haas has gone beyond the express permission of § 271(d) in tying the grant of a license to the purchase of propanil. Nothing in the Hearings indicates that it was the intent of Congress to legitimize any kind of tying arrangement.

As this Court emphasized in *Deep South, supra,* 406 U.S. 530-531, patent rights should not be expanded by the courts "unless the argument for expansion is based on more than mere inference from ambiguous statutory language", and such arguments must be considered "in light of this Nation's historical antipathy to monopoly and of repeated congressional efforts to preserve and foster competition."

IMPORTANCE OF THE QUESTION

The question presented here is one of utmost importance to the patent laws of the United States, for the decision of the Court of Appeals, if allowed to stand, expands the protection of the patent laws beyond the coverage of the patent claims, a scope never contemplated by the Congress, and never sanctioned by this Court since the decision in *Henry* v. *A. B. Dick Co.*, supra, which was overruled five

years later in *Motion Pictures Patents Co.* v. *Universal Films Manufacturing Co.*, supra. Since *Dick*, this Court has never approved any arrangement which extended the patent monopoly beyond the scope of the invention claimed; to the contrary, the Court has consistently held that a patent cannot be used to control unpatented components or materials. Nevertheless, the Court has never explicitly ruled as to the effect of § 271(d). In the present case, the Court of Appeals has construed it as broadening the scope of patent protection. The Court should review this important question.

The question has importance far beyond the rights of the parties to this litigation, or even of the rights of farmers and others who practice the method covered by the Wilson Patent. This is demonstrated by the fact that two large associations of chemical manufacturers, the Manufacturing Chemists Association (201 chemical companies) and the National Agricultural Chemicals Association (120 companies), filed amicus briefs in the Court of Appeals.

As indicated in those amicus briefs, the decision of this Court on the issue presented will have a widespread effect on patents on the use of chemicals. One source relied upon states that of the approximately 33,600 major new chemical developments each year, 8,400 represent new applications for existing chemicals.[7]

The question is equally as relevant to patents on other processes, as well as those covering machines. In fact, for the large majority of patents, the question can be asked whether the patent owner is entitled to monopolize elements of the patented invention, or only the invention as a whole.

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[7] Foster D. Snell, Inc. *Survey of the Chemical Industry* 6 (June 26, 1975).

The importance of the question presented is further demonstrated by the attention that it has drawn from commentators throughout the years since the enactment of 35 U.S.C. § 271(c) and (d).[8] It is notable that these commentators almost unanimously support Petitioner's position that a patentee may not condition the grant of a license on the purchase from him of unpatented non-staple components. As previously noted, the Court of Appeals itself recognized the plausibility of Petitioners' position, and the indications of this Court's contrary view in the *Aro* cases, thereby virtually inviting review by this Court.

Finally, this Court has itself recognized the importance of clarifying the law on the scope of monopoly to which patent owners are entitled by deciding at least ten cases in which this was the central issue. This case presents an opportunity to, for the first time, decide one of the thorniest problems emerging from the 1952 patent statute. If the Court declines to face the question now, the public will necessarily be left in confusion, created by the present case, as to the rights patent owners have against those who sell elements or materials for use in patented combinations or processes.

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[8] Note, *Regulation of Business-Patents-Effect of Section 271 on the Doctrine of Contributory Infringement*, 55 Mich. L. Rev. 909 (1953); Note, *Combination Patents: The Right to Prohibit the Sales of Replacement Parts*, 70 Yale L.J. 649 (1961); J. Scafetta, *Ten Years After Aro II: The Effect of Patent Act §271 on the Patent Misuse Doctrine*, 26 S. Ca. L. Rev. 539 (1975), reprinted in 58 J. Pat. Off. Soc'y 69 (1976); J. Scafetta, *The Constitutionality/Unconstitutionality of the Patent Infringement Statute*, 59 J. Pat. Off. Soc'y 665 (1977); Giles S. Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 35 J. Pat. Off. Soc'y 476 (1953); *Note, Section 271(b) of the Patent Act of 1952: Confusion Codified*, 66 Yale L. J. 132 (1956); Note, *Contributory Infringement and Misuse—The Effect of Section 271 of the Patent Act of 1952*, 66 Harv. L. Rev. 909 (1953); and M.D. Nelson, *Mercoid-Type Misuse is Alive*, 56 J. Pat. Off. Soc'y 69 (1976).

This issue is presented here following a reversal of the granting of a motion for summary judgment by the district court, and a remand for a trial on the merits. However, because of the importance of the issue and because of the obvious need for a definitive construction of language in the Patent Laws, this issue should be decided now. *Abbott Labs* v. *Portland Retail Druggists,* 425 U.S. 1, 5-6 (1976).

Moreover, this case is already over five years old. It may well take another five years, at a cost to these small companies of hundreds of thousands of dollars, to go through a trial on the merits and another appeal. A decision on this controlling question at this time will avoid that delay and cost.

More importantly, farmers groups, the chemical industry, the patent bar and many other segments of the public have anxiously followed the progress of this case over the past five years, awaiting a final determination of the question presented in order to guide them in their future business dealings. Another five years delay will merely extend the uncertainty, and, since the facts here are stipulated, a trial record would be of no value in deciding the Question presented.

CONCLUSION

For the foregoing reasons, a writ of certiorari should issue to review the judgment and opinion of the Fifth Circuit.

Respectfully submitted,

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APPENDIX

APPENDIX

[6535]

ROHM AND HAAS COMPANY,
Plaintiff-Appellant
Cross-Appellee,

v.

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION,
CRYSTAL CHEMICAL COMPANY, AND
HELENA CHEMICAL COMPANY,
Defendants-Appellees
Cross-Appellants.

No. 76-4511.

UNITED STATES COURT OF APPEALS,
FIFTH CIRCUIT.

July 30, 1979.

Suit was brought for infringement of patent describing a method of applying the unpatented chemical compound "propanil," a nonstaple having no substantial noninfringing use, to established crops such as rice so as to inhibit the growth of weeds selectively. The United States District Court for the Southern District of Texas, at Houston, Carl O. Bue, Jr., J., granted summary judgment dismissing plaintiff's claim, and plaintiff appealed. The Court of Appeals, Gee, Circuit Judge, held that subsection (d) of patent infringement statute, providing that "No patent owner otherwise entitled to relief for infringement or contributory infringement * * * shall be denied relief or deemed guilty of misuse * * * by reason of his having done one or more of the following * * *," reversed the *Mercoid* misuse doctrine when the unpatented component sold is a nonstaple, with no substantial market apart from its use in the patented process.

Reversed and remanded.

1. Patents — 181

Right to exclude is created by patent grant.

2. Patents — 182

An inventor cannot sue anyone for using his invention before the patent is issued.

3. Monopolies — 21.2(3)

In suit for infringement of patent describing a method of applying the unpatented chemical compound "propanil," a nonstaple having no substantial noninfringing use, to established crops so as to inhibit the growth of weeds selectively, subsection (d) of patent infringement statute, providing that "No patent owner otherwise entitled to relief for infringement or contributory infringement * * shall be denied relief or deemed guilty of misuse * * * by reason of his having done one or more of the following * *," reversed the *Mercoid* misuse doctrine when the unpatented component sold is a nonstaple, with no substantial market apart from its use in the patented process. 35 U.S.C.A. § 271(d).

4. Patents — 191

There is no general policy requiring a patentee to grant explicit licenses in addition to those that arise by operation of law.

5. Patents — 191

A patentee may sell unpatented components while refusing to license others to do the same conduct, sell the unpatented component, without thereby being deemed guilty of misuse. 35 U.S. C.A. §§ 271, 271(d).

[6536]

6. Patents — 259(1)

Doctrine of contributory infringement was a judicial invention designed to give effective protection to patentees, perhaps occasioned by a narrow judicial definition of direct infringement whereby one does not infringe unless he, for example, assembles or practices every element claimed in a patent. 35 U.S.C.A. § 271.

7. Patents — 259(1)

Contributory infringement doctrine focuses on conduct of patent infringers, rather than on that of the patentee. 35 U.S.C.A. § 271.

8. Monopolies — 21.2(3)
Patents — 259(1)

Although the doctrines of contributory infringement and patent misuse are technically the same, one focusing solely on the patentee's conduct and other focusing solely on that of the alleged infringer, they rest on antithetical underpinnings; they clearly conflict concerning the permissible means by which a patentee may extract from the buying public the full monetary measure of his invention's competitive superiority.

9. Patents — 259(1)

Doctrine of contributory infringement in its classical exposition admits that a patentee may temporarily extend his monopolistic market power to unpatented items used in or with his invention since he is able to do this only to the extent the public values his invention and since he is not given a patent in terms over the unpatented items.

10. Monopolies — 21.2(3)

Doctrine of patent misuse categorically denies that the value of the patented good can properly be sounded by sales of unpatented goods used in or with it, however unique or important to the invention they may be; any attempt, for the sake of convenience or otherwise, to capitalize on the invention except by dealing in the invention as a whole is beyond the scope of the patent and against public policy.

11. Monopolies — 21.2(3)

The patentee who is attempting to completely foreclose competitors is safe from a misuse defense only in selling products that are nonstaple, material parts of his invention, and capable of no substantial noninfringement use. 35 U.S.C.A. § 271(c, d).

12. Patents — 191

Once an item has been conveyed, it passes beyond the patentee's monopoly power and the buyer can use it or sell it as he wishes.

Appeals from the United States District Court for the Southern District of Texas.

Before GEE and VANCE, Circuit Judges, and HUNTER,* District Judge.

GEE, Circuit Judge:

This is an appeal from a grant of summary judgment dismissing plaintiff's claim in a patent infringement suit. It is stipulated that plaintiff-appellant Rohm & Haas Company is sole owner of a patent that describes a method of ap-

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plying a chemical compound, 3, 4-dichloropropionanilide (hereinafter "propanil"), to established crops such as rice

* District Judge of the Western District of Louisiana, sitting by designation.

so as to inhibit the growth of weeds selectively. Propanil itself is not patented; Rohm & Haas succeeded in having a Monsanto patent on the chemical declared invalid in an earlier suit against it by Monsanto.[1]

Rohn & Haas currently makes propanil and sells it in containers bearing instructions for performing the patented process. By operation of law, purchasers of propanil thus receive implied license to use the patented method. Rohm & Haas does not intend either to license other propanil manufacturers to enable them also to license customers to use the patented method or to license customers to use the method with propanil bought from sources other than Rohm & Haas.

The defendants Helena Chemical Company, Dawson Chemical Company, Crystal Manufacturing Corporation, and Crystal Chemical Company, sold propanil for application to rice crops before Rohm & Haas received its patent. Thereafter they continued to sell propanil, knowing of the patent, and their customers have directly infringed the patent by following the method described on defendants' containers of propanil. Defendants intend to continue making and selling propanil with the same recommendations and instructions.

[1, 2] Alleging most of these facts in its complaint and the additional fact that propanil is a nonstaple that has no substantial noninfringing use,[2] Rohm & Haas brought

[1] *Monsanto Co.* v. *Rohm & Haas Co.*, 312 F.Supp. 778 (E.D.Pa. 1970), aff'd. 456 F.2d 592 (3d Cir.), *cert. denied.* 407 U.S. 934, 92 S.Ct. 2463, 32 L.Ed.2d 817 (1972).

[2] Defendants Helena and Crystal, at least, seem to have conceded this factual matter for the purpose of the present motions.

Two crucial terms in section 271(c), set out fully in the text below, are "staple article" and "commodity of commerce suitable for substantial noninfringing use." The chief draftsman of the provision, Mr. Giles S. Rich, now Associate Judge of the

suit against the defendants for injunctive and declaratory relief. It alleged that the defendants were actively inducing infringement of the patent and that their sales amounted to contributory infringement since they knew that propanil is a material part of the patented invention, is especially made or adapted for use in the patent, and has no substantial noninfringing use. In their answers, defendants alleged that Rohm & Haas was not entitled to relief because its licensing program amounted to patent misuse and because its patent was invalid for various reasons. They also counterclaimed, alleging that the Rohm & Haas licensing scheme and oth-

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er behavior violated the antitrust laws.[3] The licensing pro-

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United States Court of Customs and Patent Appels, has indicated that the terms are not synonymous. *See Infringement Under Section 271 of the Patent Act of 1952,* 35 U. Pat. Off. Soc'y 476, 493 (1953).

For the sake of simplicity in the technical discussions that follow, however, we have used "staple" to mean a commodity or product with substantial uses apart from the patented invention. By "nonstaple" we have meant to denote a product or material *lacking* substantial uses other than infringing uses. This is not necessarily the sense in which similar terms were used by the Supreme Court in early contributory infringement or misuse cases.

Section 271 contains one other requirement—that the component or material "constitut[e] a material part of the invention." We here assume that propanil will also meet this test, since it is the active ingredient in producing weed-inhibiting effect of the patented method.

[3] Some of the additional allegations are rather serious. Defendants charge that for at least two years prior to the issuance of the method patent, Rohm & Haas representatives coerced distributors into refusing to purchase propanil from anyone else by threatening that uncooperative distributors would be cut off from a supply of propanil after the method patent issued. Since the right to exclude is created by the patent grant and an inventor cannot sue anyone for using his invention before the patent is issued. *Gayler* v. *Wilder,* 51 U.S. (10 How.) 477, 493, 13 L.Ed. 504 (1850), such coercive attempts to gain exclusivity before a patent issues may well constitute misuse. Since the court below has not addressed these contentions, we leave them for another day, observing, on the one hand, that such conduct is not purportedly immunized by § 271(d) and, on the other hand, that misuse traditionally bars an infringement suit only until the misuse has been purged.

gram was specifically attacked as an impermissible tying of purchase of a license under the patent to purchase from Rohm & Haas of the unpatented propanil.

[3] All the parties agree that Rohm & Haas' conduct can be characterized as an attempt to "extend the patent" and thus monopolize the market for the unpatented component — conduct deemed patent misuse under the doctrine of *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661, 64 S.Ct. 268, 88 L.Ed. 376 (1944). The main point of disagreement for purposes of this appeal is whether 35 U.S.C. § 271(d) reverses the *Mercoid* misuse doctrine when the unpatented component sold is a nonstaple, with no substantial market apart from its use in the patented process. In an able and carefully considered opinion, the district court below concluded that section 271(d) does not immunize Rohm & Haas from charges of patent misuse, and thus he granted the defendants' motion for summary judgment and dismissed the complaint until Rohm & Haas has purged itself of the misuse. Our consideration of the matter has led us to the contrary conclusion; thus, we reverse.

We begin by placing in clear view the statute we construe. The simplicity and ostensible clarity of its words belie the complex and delicate questions of interpretation it has spawned — to the delight of commentators. It reads as follows:

Section 271. Infringement of patent

(a) Except as otherwise provided in this title, who-

ever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory in-

fringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement on contributory infringement.

35 U.S.C. § 271 (1952).

By a very plausible construction of these passages, assuming the patent is valid, defendants are contributory infringers because they have sold propanil for use in practicing a patented process, knowing that the chemical, a material part of the inventive method, is not a staple or commodity of commerce, has no substantial noninfringing

use, and is especially made or adapted for use in infringing the patent.

[4, 5] By a further tenable reading of the statute, the plaintiff Rohm & Haas has done only acts which under (d) may no longer be deemed patent misuse or illegal extension of the patent. It has "derived revenue" from sales of propanil, conduct that, under (c), constitutes contributory infringement when done by those who, like defendants, act without consent. And it now "seeks to enforce" its patent rights by suit against defendants' contributory infringement. That it has refused to give licenses either to customers or manufacturers of propanil is of no consequence under this analysis since there is no general policy requiring a patentee to grant explicit licenses in addition to those that arise by operation of law. Moreover, the introductory portion of (d) provides that a patentee may do "one or more" of the enumerated practices. This reinforces the view that a patentee may sell unpatented components while refusing to license others to do the same conduct — sell the unpatented component — without thereby being deemed guilty of misuse.

Assessing plaintiff's conduct through a different lens, defendants argue that what Rohm & Haas has done is *tie* sale of patent rights to purchase of an unpatented element used in carrying out the process. This coercive conditioning of one sale upon another is not mentioned in subsection (d) and therefore survives as a type of misuse sufficient to cause dismissal of plaintiff's suit. Under this analysis, Rohm & Haas is not, in the statutory language, "otherwise entitled to relief," and thus the statute does not immunize its sale of propanil so long as it refuses to license competitors. The statute does not ratify tying of any sort, they claim, and it is even more reprehensible that plaintiff claims such rights regarding a nonstaple. If plaintiff's view pre-

vails, defendants will be entirely foreclosed from any domestic outlet for their product, unlike those who sell mere staples.

Each of these positions is a plausible reading of the bare statute, and each side can cite commentary supporting its particular view.[4] The proper starting

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place for resolving the conflict is with the statute's history. Before beginning, however, a review of the doctrines of contributory infringement and patent misuse will be helpful in understanding the terms of the debate waged in congressional hearings on the proposed statute.

[6] The doctrine of contributory infringement was a judicial invention designed to give effective protection to patentees, perhaps occasioned by a narrow judicial definition of *direct* infringement whereby one does not infringe unless he, for example, assembles or practices *every* element claimed in a patent. *Prouty* v. *Draper*, 41 U.S. (16 Pet.) 336, 10 L.Ed. 985 (1842).

Under the latter construction, it soon became apparent that one could appropriate the competitive advantages of a patent by, for instance, selling all the parts of a patented device save one and relying on the purchaser, the direct infringer, to supply the final element and thus complete the device. Permitting such conduct would have effectively

[4] Commentary supporting Rohm & Haas' interpretation of § 271 includes, e. g., Note, *Combination Patents: The Right to Prohibit the Sales of Replacement Parts*, 70 Yale L. J. 649 (1961); J. *Scafetta, Ten Years After Aro II: The Effect of Patent Act § 271 on the Patent Misuse Doctrine*, 26 S. Ca. L. Rev. 539 (1975), reprinted in 58 J. Pat. Off. Soc'y 69 (1976).

Commentary tending to support defendants' view of the statute includes, e. g., Note, *Section 271(b) of the Patent Act of 1952: Confusion Codified.* 66 Yale L.J. 132 (1956). Note, *Contributory Infringement and Misuse — The Effect of Section 271 of the Patent Act of 1952,* 66 Harv. L. Rev. 909 (1953).

immunized both the buyer and the seller, since suits against the many direct infringers were difficult and often uneconomical. Applying general tort principles, the courts provided a remedy for the patentee against such sellers by deeming them joint tortfeasors with their customers, the direct infringers. To avoid ensnaring innocent merchants who sold goods that later and without their knowledge were fashioned into infringing combinations by buyers, the courts required proof that a merchant had intended to encourage infringement. The requisite intent was presumed, however, when the items sold had no use except in the infringing combination.[5]

[7] As will be observed from the above discussion, the contributory infringement doctrine focuses on the conduct of patent infringers, rather than on that of the patentee. The theoretical basis for the doctrine was more general, however. The doctrine rested on particular views about the manner in which patentees should be able to extract full economic value from their inventions. This can be seen by reflecting on the result of a successful suit for contributory infringement. The prevailing patentee traditionally could secure an injunction against the contributory infringer and thereby drive him from the relevant market. *See, e. g., Thomson-Houston Electric Co.* v. *Kelsey Electric R. Specialty Co.*, 72 F. 1016 (2nd Cir. 1896). The result, especially when the contributory goods sold were not useful for other purposes, was that the patentee effectively gained control over the market for mere *elements* of his patent — elements that might be, but more probably were not, patented in themselves. In effect, therefore, a

[5] Further discussion of the early cases can be found in C. Miller, *Some Views on the Law of Patent Infringement by Inducement*, 53 J. Pat. Off. Soc'y 86 (1971); Note, *Regulation of Business — Patents — Effect of Section 271 on the Doctrine of Contributory Infringement*, 55 Mich. L. Rev. 909 (1953).

patentee could force anyone who wished to practice his patented process or use his patented machine to purchase the necessary unpatented components from him.

This state of affairs did not bother many courts in the early days of contributory infringement. Against objections that these injunctions in essence extended the scope of the patent so as to give the patentee the same advantage as if

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the element had also been patented, courts answered that a patentee had not been given an additional patent *in terms* and that they would not prohibit the use of the unpatented element in some other combination if another ingenious use for it could be discovered. *See* opinion of Judge Putnam in *Davis Electrical Works* v. *Edison Electric Light Co.*, 60 F. 276, 280 (1st Cir. 1894). And focusing on the analytically similar problem of a patentee's right explicitly to condition use of his patented product or process upon an agreement to buy from him its unpatented elements or unpatented items used with it, courts observed that any monopolistic tendencies would be the legitimate consequence of the meritorious character of the patentee's invention. A patentee would be able to impose restrictive conditions for use of concomitant elements only to the extent of the buyer's valuation of the patented invention itself. *Heaton-Peninsular Button-Fastener Co.* v. *Eureka Speciality Co.*, 77 F. 288 (6th Cir. 1896), exhibits the classic analysis. Observing that patentees had always been accorded the right to retain exclusive use of their inventions, even to the point of suppressing them entirely for the statutory period of monopoly, Judge Lurton hypothesized the case of an invention that so reduced the cost of making shoes, an unpatentable end product, that by underselling his competitor manufacturers the patentee was able to drive them from the shoe market. He then reasoned:

> [I]f the patentees, by retaining to themselves the exclusive use of their invention, are able, legitimately and lawfully, to acquire a monopoly of the manufacture of shoes and destroy the shoe market for those who before had shared it, why may they not, by a system of restricted licenses, permit others to use their devices on condition that only some minor part of the shoe, — the pegs, the tips, the thread, or the buttons, or the button fasteners, — shall be bought from them. If these concessions were such as to enable others to compete though their use of the mechanism was restricted by the terms of the license, who could justly complain if the inventors, content with a monopoly of the market for the article named in their license surrendered the opportunity for a monopoly of the manufacture of the complete shoe.

Id at 295.

Initially the Supreme Court showed hesitation when asked to recognize a patentee's derivative power regarding unpatented elements. In *Morgan Envelope Co.* v. *Albany Perforated Wrapping Co.* 152 U.S. 425, S.Ct. 627, 38 L. Ed. 500 (1894), the patentee-plaintiff held two patents. One, found invalid by the Court, covered toilet paper rolled into an oval configuration; the other was a combination patent covering the oval roll of paper and a dispenser that together delivered the paper in premeasured lengths. In ruling that the defendant's sale of oval paper rolls for use with the plaintiff's dispenser was not an infringement, the Court employed two entwined but distinguishable strands of analysis. It first determined that the principle of contributory infringement should not apply when the item sold was "an article of manufacture, perishable in its nature, which it is the object of the mechanism to deliver, and which must be renewed periodically, whenever the device is put to use." 152 U.S. at 433, 15 S.Ct. at 630-631.

Of seemingly equal importance, however, was its second observation that, when the item sold was not itself patentable, the contrary outcome would be

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"giving to the patentee of the machine the benefit of a patent upon the product, by requiring such product to be bought of him." *Id.* The brief opinion shifts back and forth between these two thoughts, and it is difficult to determine whether the Court's concerns about extending the patent were aroused only when the item dealt in was a perishable staple requiring replacement or might also extend to non-staple or uniquely active elements of a patent. Aspects of what came to be known as "patent misuse" were involved in *Morgan Envelope,*[6] but the Court, though it refused to ratify the plaintiff's right to these tactics as regards the rolls of paper, did not seem to consider the conduct as independently wrongful. Rather, certain language suggests that such conduct would be an appropriate concomitant of holding a patent whose elements were not mere staples.[7]

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[6] The plaintiff's practice had been to sell its dispensers only in connection with its oval rolls. Purchasers were required to buy a given quantity of paper for a given number of fixtures, and certain institutional buyers were required to buy subsequent roll supplies from the patentee. 152 U.S. at 431-32, 14 S.Ct. 627.

[7] For instance, immediately after noting that holding for plaintiff would be giving the patentee of "the machine" the benefit of a patent on the product as well, the Court added:

> To repeat an illustration already put. If a log were an element of a patentable mechanism for sawing such log, it would, upon the construction claimed by the plaintiff, require the purchaser of the sawing device to buy his logs of the patentee of the mechanism, or subject himself to a charge of infringement. This exhibits not only the impossibility of this construction of the patent, but the difficulty of treating the paper as an element of the combination at all.

152 U.S. at 433, 14 S.Ct. at 631. Moreover, it is interesting to note that the plaintiff did not hold a patent on the dispenser, "the machine," in itself — but only on the combined dispenser with paper — yet the Court seems to speak as if he did.

In the leading case of *Leeds & Catlin Co.* v. *Victor Talking Machine Co.,* 213 U.S. 325, 29 S.Ct. 503, 53 L.Ed. 816 (1909), the Court retreated from its ambiguous reluctance to give protection to unpatented elements of a combination patent. Plaintiff Victor, whose patent covered disc records and a stylus that combined to reproduce the sound recorded on the discs, had sued Leeds & Catlin to prevent its sale of other recorded discs that were to be used by owners of Victor machines in an alleged infringement. Leeds' primary defense was that use of its records with the Victor stylus accomplished permissible "repair" of the patented device rather than a prohibited "reconstruction." Reviewing "some rudimentary principles" regarding combination patents before assessing this contention, the Court observed that, whether constituted of new or old elements, it is the combination that is the relevant invention and is protected by law as a unit. The Court reiterated, however, that whoever contributes to the use of the combination absent permission also infringes the patent and, in words striking close to the position enunciated in *Morgan Envelope,* continued:

> It may be well here to get rid of a misleading consideration. *It can make no difference as to the infringement or noninfringement of a combination that one of its elements or all of its elements are unpatented.* For instance, in the case at bar the issue between the parties would be exactly the same, even if the record disc were a patented article which petitioner had a license to use or to which respondent had no rights independent of his right to its
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> **[6543]**
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> use in the combination. In other words, the fact that the disc sold by petitioner is unpatented does not affect the question involved except to give an appearance of a limitation of the rights of an owner of a Victor machine other than those which attach to him as a

> purchaser. The question is, What is the relation of the purchaser to the Victor Company? What rights does he derive from it? To use the machine, of course, but it is the concession of the argument of petitioner that he may not reconstruct it. Has he a license to repair deterioration, and when does repair become reconstruction?

213 U.S. at 333, 29 S.Ct. at 505 (emphasis added). With this language, the Court seemed to reject the notion that the patent status of mere elements is a source of limits on the rights of patentees against their licensees, customers or alleged infringers. The inquiry is shifted instead to an examination of the contractual relationship between the purchaser and the patentee. *Morgan Envelope,* on which the defendants had relied heavily, was distinguished. As contrasted with the paper rolls that stood in relation to the dispenser as "a machine and its product" and that perish in use, requiring periodic renewal, the disc and stylus were each active elements in producing the result, distinguishing the invention and advancing upon the prior art. *Id.* 213 U.S. at 333-36, 29 S.Ct. 503.

The Court also rejected the defendant's attempt to characterize its discs as a staple item of manufacture, noting that the trial court had found that the allegedly noninfringing device in which the defendant's records could be used was not commercially viable. Defendants therefore knew that the only use their records would receive would be in connection with the patented machine. The Court also noted, however, that the injunction forbade only the use of the records in connection with the patent. *Id.* at 337, 29 S.Ct. 503.

Following *Leeds & Catlin,* the Court allowed patentees even greater latitude in reaping economic benefits from their inventions through license restrictions or notice. *Henry* v. *A. B. Dick Co.,* 224 U.S. 1, 32 S.Ct. 364, 56 L.Ed.

645 (1912), written by Justice Lurton, who had earlier penned the *Button-Fastener* opinion for the Sixth Circuit, marks the high water in this area. The principles enunciated in *Dick* effectively enabled a patentee to "tie" ordinary staples of commerce, none of which was even an element of the patented device, to a purchaser's right to use the device. This result was achieved by enforcing through the patent law instead of general contract law a notice attached to each patented machine at sale that required the purchaser to use the machine only with stencil paper, ink, or other supplies made by the patent holder, A. B. Dick. The majority ruled that any breach of these conditions by the buyer constituted infringement of the underlying patent and that any conduct aiding the breach was contributory infringement.

On the question whether, thus applied, the doctrine of contributory infringement operates to extend the monopoly of the patent to subjects not within it, Justice Lurton stated:

> If a patentee says, "I may suppress my patent if I will. I may make and have made devices under my patent, but I will neither sell nor permit anyone to use the patented things," he is within his right, and none can complain. But if he says, "I will sell with the right to use only with other things proper for
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> **[6544]**
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> using with the machines, and I will sell at the actual cost of the machines to me, provided you will agree to use only such articles as are made by me in connection therewith," — if he chooses to take his profit in this way, instead of taking it by a higher price for the machines, has he exceeded his exclusive right to make, sell, and use his patented machines? *The market for the sale of such articles to the users of his machine, which, by such a condition, he takes to himself, was a*

> *market which he alone created by the making and selling of a new invention. Had he kept his invention to himself, no ink could have been sold by others for use upon machines embodying that invention. By selling it subject to the restriction, he took nothing from others and in no wise restricted their legitimate market.*

224 U.S. at 32, 32 S.Ct. at 373 (emphasis added). Observing that a like objection had been made against injunctions restraining the sale for infringing purposes of a single element in a patented combination, the majority then answered the contention in the language of Judge Putnam in *Davis Electric*, discussed above.

Justice White, for the minority, voiced conflicting reasoning that later became prevalent in patent misuse cases:

> [T]he ruling now made in effect is that the patentee has the power, by contract, to extend his patent rights so as to bring with the claims of his patent things which are not embraced therein, thus virtually legislating by causing the patent laws to cover subjects to which, without the exercise of the right of contract, they could not reach, the result not only to multiply monopolies at the will of an interested party, but also to destroy the jurisdiction of the state courts over subjects which, from the beginning, have been within their authority.

Id. at 53, 32 S.Ct. at 381.

Two years later in partial response to *Dick,* Congress passed section 3 of the Clayton Act and the Federal Trade Commission Act. New members of the Court joined with the *Dick* minority to form a new majority, and thereafter the Court began a retreat from the principles just reviewed. Their vehicle was the new doctrine of patent misuse.

In *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.,* 243 U.S. 502, 37 S.Ct. 416, 61 L.Ed. 871

(1917), Mr. Justice Clarke, for the new majority, held that a patentee may not, as a function of general *patent* law,[8] require by notice a purchaser to limit use of patented movie machine to unpatented films that do not form part of the patented machine. With the attempted restriction ruled invalid, there was no further basis for a charge of direct or contributory infringement, and the plaintiff was denied relief.

The Court rested its decision, which of course required reversing *Dick,* on an analysis of "fundamental" principles embodied in the patent statute. From the basic proposition that the scope of a patent is limited to the invention described in its claims, coupled with the rule that the statutory policy of benefitting the public outweighs the policy of benefitting inventors, the Court concluded that

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> the monopoly granted by law should not extend to, and thus cannot sanction a patentee's control of, mere materials "with which or on which the machine operates." 243 U.S. at 509-13, 37 S.Ct. at 419. The majority further reasoned that a reward based on the entire invention was a fair measure of an inventor's creativity and that "he should not be permitted by legal devices to impose an unjust charge upon the public in return for the use of it." *Id.* at 513, 37 S.Ct. at 419. The *Dick* majority had thought well of the patentee's system of selling a machine at practically cost and making its entire profit from the sale of supplies because the intention was thereby made widely available to the public. The new majority thought such facts "the clearest

[8] The Court left open the question whether the patentee and purchaser could agree to a similar restriction by "special contract," but its language about the public policies implicated by such arrangements cast some doubt on the validity of such tactics as well. 243 U.S. at 509, 513, 37 S.Ct. at 419.

possible condemnation of [the patentee's system]." Echoing the *Dick* dissent, Justice Clarke explained:

> [I]t proves that, under color of its patent, the owner intends to and does derive its profit, not from the invention on which the law gives it a monopoly, but from the unpatented supplies with which it is used, and which are wholly without the scope of the patent monopoly, thus in effect extending the power to the owner of the patent to fix the price to the public of the unpatented supplies as effectively as he may fix the price on the patented machine.

243 U.S. at 517, 37 S.Ct. at 412.

In *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27, 51 S.Ct. 334, 75 L.Ed. 819 (1931), the Court reviewed a merchandising system in which the patentee and its licensee sold solid carbon dioxide and by notice, without extra charge, extended to each customer an implied license to use the dry ice in patented cardboard transportation packages. Neither the plaintiff nor other licensees actually sold these carboard packages. The Court relied on *Motion Picture's* reasoning to categorize the conduct as "abuse of the patent monopoly" and a bar to relief against a contributory infringer. The system was considered the equivalent of conditioning grant of a patent license on the purchase of unpatented materials used in connection with the invention.

The plaintiffs tried to distinguish *Motion Picture* by arguing that the unpatented item sold here was a necessary element of the patented combination, as opposed to a mere supply used with the invention. They also sought to distinguish themselves from *Morgan Envelope* by arguing that, unlike the passive toilet paper there involved, the carbon dioxide was the dynamic element that produced refrigeration. Justice Brandeis, for the majority, rejected these distinctions as lacking legal significance.

> Infringement, whether direct or contributory, is essentially a tort, and implies invasion of some right of the patentee. . . . The Dry Ice Corporation has no right to be free from competition in the sale of solid carbon dioxide. Control over the supply of such unpatented material is beyond the scope of the patentee's monopoly; and this limitation, inherent in the patent grant, is not dependent upon the peculiar function or character of the unpatented material or on the way in which it is used. Relief is denied because the Dry Ice Corporation is attempting, without sanction of law, to employ the patent to secure a limited monopoly of unpatented material used in applying the invention.

283 U.S. at 33, 34, 51 S.Ct. at 336. He next analogized the patentee's conduct to antitrust violations in which patents

had been used as instruments for restraining commerce.[9] Finally, the principle of *Leeds & Catlin* was distinguished since "[t]here was no suggestion that the Victor Company, which itself manufactured and sold the patented product,"

[9] Building on the previous construction of Clayton Act, Section 3, in *United Shoe Machinery Corp.* v. *United States,* 258 U.S. 451, 41 S.Ct. 363, 66 L.Ed. 708 (1922), and on this reference in *Carbice,* analysis of conduct constituting patent misuse as an independent violation of antitrust laws proceeded apace in later years. In *IBM* v. *United States,* 298 U.S. 131, 56 S.Ct. 701, 80 L.Ed. 1085 (1936), the Justice Department won a section 3 suit against IBM for leasing its patented tabulating machines upon condition that lessees use with the machines only tabulating cards sold by IBM. Though both the machines and the cards, at least once they had been punched to encode information, were separately patented, the Court ruled that the tying clause was prohibited by section 3. The effect of the condition, the Court stated, "may be to substantially lessen competition." The Court thought such a clause necessarily tended to create a monopoly and had in fact been an important and effective step in creating an IBM monopoly.

sought to derive its profits from unpatented element, as opposed to the invention as a whole.

In *Leitch Manufacturing Co.* v. *Barber Co.*, 302 U.S. 458, 58 S.Ct. 288, 82 L.Ed. 371 (1938), the Court assessed the mode of business used now by Rohm & Haas. The patentee thought it might foreclose a misuse defense by carefully avoiding use of notices or explicit contract restrictions. It merely sold materials used in carrying out the patented process, thereby granting an implied license to use the patented invention. The Court, however, had no trouble identifying its conduct as prohibited tying, despite the lack of an explicit condition that the license was granted only upon purchase of the materials used in the process.

In *Leitch*, as in all the earlier misuse cases to reach the Court, the patentee had been profiting by sale of *staple* elements or concomitants of the patent. It was still possible for the bar to think that a patentee might not be deemed guilty of misuse for attempting to control the market in unpatented elements that had no use at all outside his patented invention.[10]

Though such a distinction between staples and nonstaples was rejected at the appellate level in one of the next pair of cases to reach the Court, *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488, 62 S.Ct. 402, 86 L.Ed. 363 (1942), and *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495, 62 S.Ct. 406, 86 L.Ed. 367 (1942), the various Supreme Court opinions do not address the question. In *Morton Salt*, the Court for the first time upheld a summary judgment dismissing a patentee's suit against a *direct* infringer on misuse grounds. In addition to the customary language about the anti-

[10] Broad statements of the *Carbice* rule, however, like that in *Leitch*, "every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited," 302 U.S. at 463, 58 S.Ct. at 290, should have counseled caution.

competitive effects of misuse, the Court's opinion included a new attention to the effect on competition of a successful infringement suit itself:

> Where the patent is used as a means of restraining competition with the patentee's sale of an unpatented product, the successful prosecution of an infringement suit even against one who is not a competitor in such sale is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public pol-
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> [6547]
>
> icy underlying the grant of the patent. Maintenance and enlargement of the attempted monopoly of the unpatented article are dependent to some extent upon persuading the public of the validity of the patent, which the infringement suit is intended to establish.

314 U.S. at 493, 62 S.Ct. at 405.

B. B. Chemical, the case involving the possible staple/nonstaple distinction, is noteworthy here primarily because in it the Court rejected the potential defense of commercial practicability. The patentee had argued that he should be allowed to sell the unpatented materials with an implied license to practice the patented method because he could not practicably exploit the particular patent rights by granting licenses. The Court replied that the patent monopoly is not to be enlarged simply because it would be more convenient for the patentee to have it so or because he "cannot avail himself of its benefits within the limits of the grant," 314 U.S. at 498, 62 S.Ct. at 408.

The culmination of the developing misuse theory occurred in companion decisions in 1944. *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661, 64 S.Ct. 268, 88 L.Ed. 376 (1944) (*Mercoid I*), and *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 64 S.Ct. 278, 88

L.Ed. 396 (1944) (*Mercoid II*). In these cases the Court definitively entered *Leeds & Catlin* turf and held it misuse for a patentee to attempt to control the market for unpatented elements that had no use at all outside the patented invention. The combination patent at issue in *Mercoid* covered a furnace stoker system. Mid-Continent held the patent and had granted an exclusive license to Minneapolis-Honeywell to make, use, or sell the patent and/or to sublicense others. Neither company made or installed the entire patented system; Minneapolis-Honeywell merely sold the stoker switches which, when installed with a thermostat and a motor-driven stoker, formed the patented combination. The right to construct the combination was granted only to those who bought Minneapolis-Honeywell switches; royalties from Minneapolis-Honeywell to Mid-Continent were based on the sales of the unpatented stoker switches. The defendant Mercoid Corporation was an unlicensed competitor in the business of selling the switches, and a lower court opinion reveals that Mercoid had earlier refused an offer of a license.

In *Mercoid I*, though the Court assumed that Mercoid was a contributory infringer and could have been enjoined by an innocent patentee, it barred Mid-Continent from enforcing the patent because its licensing system constituted an attempt to extend the grant of the patent to unpatented devices. Admitting that the earlier cases had involved the use of a patent to secure partial monopoly "in supplies consumed in its operation or unpatented materials employed in it," the Court, through Justice Douglas, could see no difference in principle where the unpatented material or device "is itself an integral part of the structure embodying the patent" and was not useful in any other manner. 320 U.S. at 665, 64 S.Ct. at 271. The Court saw in the patentee's conduct not a struggle to protect its rights re-

garding the combination patent, but rather a contest "solely over unpatented wares which go into the patented product." *Id.* at 666, 64 S.Ct. at 271-272. Thus, the patent was being impermissibly employed to protect the

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market for a device on which no patent had been granted. Irrespective of whether the stoker switch was "the heart of the invention" or the "advance in the art," since the separate element had not been claimed as the invention, it is not protected by the patent monopoly "when dealt with separately" *Id.* at 667, 64 S.Ct. 268.

In language thought by many to have abolished the doctrine of contributory infringement, Justice Douglas proceeded:

> The protection which the Court in [*Leeds & Catlin*] extended to the phonograph record, which was an unpatented part of the patented phonograph, is in substance inconsistent with the view which we have expressed in this case. The rule of the *Leeds & Catlin Co.* case (No. 2) accordingly must no longer prevail against the defense that a combination patent is being used to protect an unpatented part from competition. Where there is a collision between the principle of the *Carbice Case* and the conventional rules governing either direct or contributory infringement, the former prevails.
>
> The result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider.

320 U.S. at 668-69, 64 S.Ct. at 272-273.

In *Mercoid II*, Mr. Justice Douglas went even further and ruled that the legality of any attempt to bring unpatented goods within the protection of the patent is mea-

sured by the antitrust laws, not by the patent law. Further, he ruled, the effort there made to control competition in the unpatented switch plainly violated the antitrust laws, and he remanded the case for further proceedings on the alleged infringer's antitrust counterclaim.[11]

In the aftermath of *Mercoid,* strange to say, there was great confusion in the courts and among the patent bar regarding the proper scope of contributory infringement. Some courts, carrying the Court's reasoning and dictum to the extreme, held that merely filing a suit for contributory infringement constituted an attempt to control the market in unpatented goods and dismissed the suit for misuse. *See, e. g., Stroco Products* v. *Mullenbach,* 67 U.S.P.Q. 168 (S.D.Cal. 1944). A movement arose among the bar to put some effective measure of contributory infringement back into the law, and various committees came forward to draft proposed legislation for consideration by the congressional committee then codifying the general patent law. The ultimate result was section 271.

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[8-10] Before turning to the legislative history of that provision, we offer a few reflections on the two doctrines it touches. In addition to briefly recounting the develop-

[11] Despite the broad language in *Mercoid II,* there has continued to be a distinction drawn between acts that will cause an equity court to withhold its aid — the defense of patent misuse — and the often overlapping range of conduct prohibited by the antitrust laws and thus the potential basis for a treble damage cause of action. *See, e.g.,* T. Maffei, *The Patent Misuse Doctrine: A Balance of Patent Rights and the Public Interest,* 52 J.Pat.Off.Soc'y 178 (1970).

The developing antitrust assessment of tying conduct came to fruition in *International Salt Co.* v. *United States,* 332 U.S. 392, 68 S.Ct. 12, 92 L.Ed. 20 (1947), and *Northern Pacific Railway Co.* v. *United States,* 356 U.S. 1, 78 S.Ct. 514, 2 L.Ed.2d 545 (1958), patent and nonpatent cases respectively. Such business schemes were held to be per se violations of section 1 of the Sherman Act and section 3 of the Clayton Act.

ment of contributory infringement and misuse, it has been a purpose of the above review to demonstrate that, though the doctrines are technically distinct — one focusing solely on the patentee's conduct and the other focusing solely on that of the alleged infringer — they rest on antithetical underpinnings. The doctrines clearly conflict concerning the permissible means by which a patentee may extract from the buying public the full monetary measure of his invention's competitive superiority. The doctrine of contributory infringement in its classical exposition admits that a patentee may temporarily extend his monopolistic market power to unpatented items used in or with his invention since he is able to do this only to the extent the public values his invention and since he is not given a patent *in terms* over the unpatented items. In other words, the public will never pay more for use of the invention and its necessary concomitants than it thinks the full invention is worth. And since the patentee is not given a formal patent right regarding unpatented elements, competitors may freely sell them for any uses except in connection with the patented device — they are foreclosed only from the markets for their goods that exist *because of* the patented invention. The doctrine of patent misuse, on the other hand, categorically denies that the value of the patented good can properly be sounded by sales of unpatented goods used in or with it, however unique or important to the invention they may be. Any attempt, for the sake of convenience or otherwise, to capitalize on the invention except by dealing in the invention *as a whole* is beyond the scope of the patent and against public policy.

Seen in this light, there was more than a grain of truth in Justice Douglas' much maligned "dictum" in *Mercoid* that the result in that case, together with the other patent misuse cases, "limits substantially the contributory infringement doctrine" — to the extent that only some unex-

plored "residuum" might be left. Theoretically, the two doctrines can hardly coexist. The protection of unpatented elements granted in *Leeds & Catlin* is inconsistent with pro-consumer and pro-competitor values protected by thoroughgoing misuse principles. This can be demonstrated by considering the hypothetical case of the "good patentee." Posit a patentee who is exploiting his invention totally within the bounds of its claimed scope. He has the capability to produce and market a sufficient supply of the patented combination to reap his legitimate monopoly profits. Thus, he declines, as is his right, to license others to manufacture and sell the invention. He learns that his patent is being infringed by consumers with the aid of Mr. D, who has been making and selling, with instructions for completing the invention, the unique elements of his patent, elements that have no use outside the invention. Since the patentee is marketing the whole of his invention, he cannot be charged with wrongfully extending his patent.[12] His suit against

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Mr. D. for contributory infringement is therefore successful, and he is granted the traditional injunction that forces Mr. D to cease the challenged conduct. It seems evident from this scenario that, by use of the contributory infringement doctrine, the patentee has foreclosed competitors in the unpatented item, "leveraging" his one lawful monopoly into the market for an unpatented item where he now has no competition. What difference can it possibly make either

[12] Of course, if, as the *Stroco* court thought, the mere bringing of a contributory infringement suit is misuse, the patentee is barred. But this extreme definition of misuse would succeed in *totally* destroying contributory infringement principles, a result that, though logically consistent, apparently was not contemplated by Justice Douglas. He explicitly assumed that *Mercoid* was susceptible to an injunction at the hands of the proper plaintiff, 320 U.S. at 668-69, 64 S.Ct. 268.

to consumers or to competitors in the market for the unpatented item that the patentee has made his profits by selling the entire combination instead of the unique element? Competition in the submarket has been destroyed.

Despite the anomaly, caused, we think, by the conflicting bases of the doctrines, all sorts of prudential lines might be drawn to demarcate the doctrines and save for each some "appropriate" scope. Indeed, this was done in each successive patent misuse case before *Mercoid*. For instance, when the Court in *Motion Picture* disapproved a patentee's right to tie unpatented staple supplies used with the invention, it seemed carefully to imply that a different rule might apply when the unpatented item was used in, as a part of, the invention. When it took the next step down the road in *Carbice,* disapproving a tie of the unpatented staple *element* to use of the patented invention, it was possible to think that an element with no noninfringing use might be treated differently, especially since the Court went out of its way to approve the *Leeds & Catlin* holding. *Mercoid* only carried the misuse doctrine a logical step further in wiping out a patentee's right to profit from an unpatented element with no use at all outside the patented item. That the misuse doctrine had really triumphed over the contributory infringement doctrine seems evident in Justice Douglas' disapproval of *Leeds & Catlin,* a move unnecessary to the narrow *Mercoid* holding since the Court had previously described the *Leeds* patentee as a patentee profiting only by sale of the entire combination.[13]

[13] The *Carbice* Court had so described the *Leeds* patentee. 283 U.S. at 34, 51 S.Ct. 334. Query, though, whether the description was accurate. Woud the Victor Company have had much incentive to sue Leeds unless Victor itself desired to capture the market for both replacing broken records and supplementing the buyer's collection with new tunes? Surely the suit would have been unnecessary if Victor merely intended to sell only a single record for use with the more durable stylus.

It is possible that this *Mercoid* "dictum" casting doubt on the entire contributory infringement doctrine is all that was overruled by the enactment of section 271. It is possible that section 271, as defendants and several commentators urge, merely codifies the *Mercoid* result along with other patent misuse law. If so, then plaintiff Rohm & Haas cannot be allowed to foreclose the defendants from the propanil market, though, were Rohm & Hass merely practicing its exclusive right to spray farmers' fields with propanil, it could successfully sue to prevent the defendants from continuing their present practices. It is therefore with special care that we turn to the statute's legislative history so that we may interpret its words in light of the purposes Congress sought to serve by its enactment.

There was apparently no debate on the House floor regarding the 1952 codifica-

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tion and scant public debate in the Senate. An interchange in the Senate shortly before the bill was passed has often been cited as evidence that section 271 did not overturn the result in *Mercoid*.[14] In response to a question by Senator Saltonstall about the purpose of the bill, whether it changed the law in any way or merely codified it, Senator McCarran, Chairman of the Judiciary Committee that had been in charge of the bill in the Senate, stated: "It codifies the present patent laws." 98 Cong. Rec. 9323 (July 4, 1952). The force of this exchange is mitigated, however, by Senator McCarran's introduction a few moments later of a short prepared statement that in part states:

[14] *See, e.g., Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 347 n. 2, 81 S.Ct. 599, 5 L.Ed.2d 592 (1961) (Black, J., concurring). See, however, the discussion of this passage in the court below. *Rohm & Haas Co.* v. *Dawson Chem. Co.*, 191 U.S.P.Q. 691, 701 n. 9 (S.D.Tex. 1976).

> In view of the decisions of the Supreme Court and others as well as trial by practice and error there have been some changes in the laws of patents as it now exists and some new terminology used.

Id. To one familiar with the rest of the legislative history, that sentence seems almost certainly a reference to section 271 and the *Mercoid* case, among others.

The reports on the bill issued by the House and Senate Committees on the Judiciary each contain language similar to McCarran's in discussing section 271. The reports and, indeed, the title of the bill indicate its general purpose to be the revision, as well as the codification of the patent law, which had largely developed in the courts to supplement earlier and more sparse patent statutes. The reports explain that section 271 was designed to remove the "considerable doubt and confusion" engendered by "a number of decisions of the courts in recent years" and that paragraphs (b), (c), and (d) were to provide "clarification and stabilization."[15]

[15] As general description of the bill, each report states:

> Although the principal purpose of the bill is the codification of title 35, United States Code, and involves simplification and clarification of language and arrangement, and elimination of obsolete and redundant provisions there are a number of changes in substantive statutory law. These will be explained in some detail in the revision notes keyed to each section which appear in the appendix of this report. The major changes or innovations in the title consist of incorporating a requirement for invention in § 103 and the judicial doctrine of contributory infringement in § 271.

H.R.Rep.No.1023, 82d Cong., 2d Sess. 5 (1952); S.Rep.No.1979, 82d Cong., 2d Sess. 4 (1952).

The summary of section 271 more specifically states:

> Section 271, paragraph (a), is a declaration of what constitutes infringement. There is no declaration of what constitutes infringement in the present statute. It is not actually necessary because the granting clause creates certain exclusive rights and infringement would be any violation of those rights.

Though other portions

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of the reports state that only changes "deemed substantially noncontroversial and desirable" were made in the then current patent law principles,[16] the transcript of hearings held by the House Judiciary Committee indicates that the

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Paragraphs (b), (c), and (d) relate to the subject referred to as contributory infringement. The doctrine of contributory infringement has been part of our law for about 80 years. It has been applied to enjoin those who sought to cause infringement by supplying someone else with the means and directions for infringing a patent. One who makes a special device constituting the heart of a patented machine and supplies it to others with directions (specific or implied) to complete the machine is obviously appropriating the benefit of the patented invention. It is for this reason that the doctrine of contributory infringement, which prevents appropriating another man's patented invention, has been characterized as "an expression both of law and morals." Considerable doubt and confusion as to the scope of contributory infringement has resulted from a number of decisions of the courts in recent years. The purpose of this section is to codify in statutory form principles of contributory infringement and at the same time eliminate this doubt and confusion. Paragraph (b) recites in broad terms that one who aids and abets an infringement is likewise an infringer. The principle of contributory infringement is set forth in the provisons of the next paragraph which is concerned with the usual situation in which contributory infringement arises. This latter paragraph is much more restricted than many proponents of contributory infringement believe should be the case. The sale of a component of a patented machine, etc., must constitute a material part of the invention and must be known to be especially made or especially adapted for use in the infringement before there can be contributory infringement, and likewise the sale of staple articles of commerce suitable for non-fringement use does not constitute contributory infringement. The last paragraph of this section provides that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent. These paragraphs have as their main purpose clarification and stabilization.

H.R.Rep.No.1923, 82d Cong., 2d Sess. 9 (1952); S.Rep.No.1979, 82d Cong., 2d Sess. 8 (1952).

[16] *See e. g.*, H.R.Rep.No.1923, 82d Cong., 2d Sess. 3 (1952).

decision to consider section 271 "noncontroversial" was in itself a controversial issue.[17]

The most important portions of those hearings, for our purposes, involve the various appearances of Mr. Giles S. Rich, the chief draftsman of the contributory infringement provisions. The tenor of his explanations indicates that section 271 was designed to immunize behavior like that in issue here.

Evidence of this can be found, for instance, in his discussion of an unreported case, *Amalgamated Dental Co.* v. *William Getz Corp.*, in the Eastern District of Illinois. 1951 Hearings at 154-56. The plaintiff-inventor had secured a patent on a method of making dental impressions by mixing four chemicals in an aqueous solution that dried into a stiff elastic gel. The patentee was retailing his invention by selling the four chemicals as a unit, with directions for completing the mixture by adding water before the material was to be applied. The alleged infringers were marketing the invention in identical fashion. The district court, which had originally decided the *Mercoid* case and had easily perceived misuse there and in other cases, balked at deeming the patentee guilty of misuse simply because, along with his four chemicals, he had not included a little water.

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[17] Hearings were held by successive Congresses to consider the complex question of revising and codifying the patent law and particularly the contributory infringement problem. Patent Law Codification and Revision: Hearings on H.R.3760 Before Subcomm. No. 3 of the House Comm. on the Judiciary, 82d Cong., 1st Sess. 1951) [hereinafter 1951 Hearings]; Contributory Infringement: Hearings on H.R.3866. Before Subcomm. No. 4 of the House Comm. on the Judiciary, 81st Cong., 1st Sess. (1949) [hereinafter 1949 Hearings]. Contributory Infringement in Patents — Definition of Invention: Hearings on H.R.5988, H.R. 4061 and H.R.5248. Before Subcomm. on Patents, Trademarks and Copyrights of the House Comm. on the Judiciary, 80th Cong., 2d Sess. (1949) [hereinafter 1949 hearings].

After quoting the court's gyrations in allowing the suit over the asserted defense ("the water just constitutes the environment in which these chemicals per-

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form"), Rich remarked that "[l]ogically, he cannot get around the *Mercoid* case." Rich noted that courts faced the same problem regularly in fact situations of this kind and that they were deciding inconsistently. He then went on to explain that the statutory solution was designed to avoid restricting competition in items that were staples, while at the same time allowing patentees to deal in certain materially important unpatented elements and to sue competitors therein without being thrown out of court on grounds of misuse. *Id.* at 157-59. He was especially concerned with a situation where the economics of the industry is such, perhaps, that the invention is not sold in the form in which it is claimed in the patent; it is sold in a slightly incomplete form like the lamp without the chimney, so that there is a technical defense based on the omission of something mentioned in the claim.
Id. at 158.[18]

Another telling feature of Mr. Rich's remarks is his observation that the new statutory rule cannot be compared to any definite era in the history of the contributory infringement and patent misuse doctrines.[19] *Id.* at 161.

[18] Such a concern for economical distribution of inventions is of course at odds with the Supreme Court's earlier views in *B. B. Chemical, supra.*

[19] This view was also presented by Mr. P. J. Federico of the U. S. Patent Office, who, in giving a quasi-official overview of the bill except for section 271, remarked that

> paragraph (c) which is the key section, was devised by the groups working on it as an attempt to state in statutory form the theory of what has been called contributory infringement of patents in a manner which, looked at from certain points of view, might be considered restrictive of what has been held in the past and looked at from some other points of view might be considered broader.

Rather, the line drawn by paragraphs (c) and (d) represents a careful compromise between the public policy of encouraging competition, vindicated by exempting sales of staples from the definition of contributory infringement, and a patentee's desire to market his device in the most practical manner possible and to protect it against piracy. Under paragraphs (c) and (d), the patentee has no right to sue anyone who is merely marketing a staple, or even a nonstaple that does not amount to a *material* part of his invention. Such conduct by unlicensed competitors is not defined as contributory infringement. Thus, as long as a competitor is not actively inducing infringement (as by advertising or giving detailed instructions for practicing the invention with his products — conduct prohibited by paragraph (b)), a seller may even *know* or *intend* that his products will be used in an infringement, and a patentee will not be able to foreclose him from the market. *See generally id.* at 159-62.[20]

[20] Mr. Rich emphasized this narrow but important shift in doctrine by noting the result in the *Carbice* decision would not be changed:

> There would be no possibility under this section of utilizing the patent to monopolize the sale of dry ice whch was a staple article of commerce, or a commodity of commerce which had been known 80 years. It would still be misuse as in the *Carbice* case, even though this section were enacted.

Id. at 161.

In the context, the negative implication of these remaks is clear: patentees who market unpatented nonstaples might possibly monopolize such sales. And in his remarks at earlier hearings, to which he referred the committee at several points, he made this explicit:

> The exception which we wish to make to the misuse doctrine would reverse the result in the *Mercoid* case; it would not reverse the result in the *Carbice* case.

1949 Hearings at 67, 68-69.

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This understanding of the joint effect of paragraphs (c) and (d) is reinforced by the arguments of the bill's opponents, most prominently the Justice Department. T. Hayward Brown, Chief of the Patent Litigation Unit, showed especial opposition to paragraph (d), which the Justice Department deemed a major and controversial change in the current misuse principles and, as such, inappropriate for inclusion in a codification.[21]

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[21] Part of Mr. Brown's assessment is as follows:

> These provisions would result in writing into the patent statutes for the first time the strictly judicial doctrine of contributory infringement, a doctrine which has been the subject of considerable controversy and has been properly limited by the courts in recent years. This Department is opposed to extending the law of contributory infringement. The revision would clearly extend it in several respects. In the first place, paragraph (b) would put the contributory infringer in the same category as a direct infringer, thereby subjecting him to the limitations and liabilities of the latter.
>
> Paragraph (d) would greatly impair the salutary doctrine that a patentee who has misused his patents may not recover in a suit for either direct or contributory infringement. The Supreme Court has held that a requirement by a patentee that users purchase from him or his exclusive licensee unpatented part not within the scope of the patent, was a misuse of the patent and barred recovery even though contributory infringement was assumed to exist. This doctrine is a most important factor in the enforcement of the antitrust laws with respect to tying arrangements and the Department is opposed to any impairment thereof.
>
> It is not clear to what extent paragaph (b) is intended to enlarge the present law on contributory infringement. The phrase, "actively induces infringement" might cover many situations which are not now considered to be contributory infringement. Paragraph (c) also appears to enlarge the scope of contributory infringement. While some cases have indicated that one who sells an article not capable of use except in an infringing manner is liable for contributory infringement even in the absence of actual knowledge of the infringement, the sounder approach would seem to be that such facts merely give rise to a rebuttable presumption of intent to infringe.

One who read section 271 differently from Mr. Rich, and is thus often cited to support a narrow interpretation of it, is Representative Crumpacker, a member of the House subcommittee conducting the hearings on the bill. When Mr. Fugate of the Justice Department railed against the provision because of its ostensible legitimation of certain types of misuse, Crumpacker's response indicates he read the language as applying to innocent conduct not previously deemed misuse or "monopolistic practices" by the courts.[22] 1951 Hearings at 165-64 and following. Mr. Rich was brought back to clarify matters. Mr. Rogers then summarized Rich's position as follows:

> Now, due to what many members of the patent bar believe, that it did away with contributory infringement cases, you feel that we should now state as a positive law a cause of action against contributory infringement

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> as set forth in section (c), and that if he has done one of the three things in section [(d)], that shall not be considered a misuse of his patent, and *thereby re-establish what you thought you had before the Mercoid case*. Isn't that about what the situation is?

Id. at 173 (emphasis added).

1951 Hearings at 96-97. *See also* the remarks of Mr. Wilber L. Fugate, an attorney of the Justice Department's Antitrust Division, 1951 Hearings at 162-69.

[22] Mr. Crumpacker seemed incredulous at Mr. Fugate's suggestion that, if applied generally, paragraph (d) would immunize conduct which the courts had found to be misuse. He countered:

> It says that he shall not be deemed guilty of misuse because he has done one of these three things. It doesn't say that he shall be deemed not guilty of misuse because he has done this. I think you are reading it backward. That is, he may have done all three of these things and still be guilty of misuse, as I interpret the language.

1951 Hearings at 167.

Mr. Rich agreed and further explained that to recover a full complement of contributory infringement meant something had to be done about misuse.

> So attached to paragraph (c) we have a paragraph (d) that says that the recovery, the enforcement against contributory infringers, the holding out of the patent against contributory infringers, and granting them licenses, the use of it to protect the business and making money out of it, and getting your reward as a patentee, all of these things shall not be misuse, and then contributory infringement, which we have had all the time, would become effective again to the extent that they wish to have it so.

Id.

In a final clarification, Mr. Rogers revived an earlier line of inquiry: whether the enumerated rights were innocent in themselves or whether the courts had previously deemed each one of them patent misuse. As the final comprehensive discussion of section 271(d), and as a treatment that seemed to satisfy Representative Crumpacker sufficiently so that he turned to another matter, this exchange, set out in the margin, is worthy of study.[23]

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[23] Mr. Rogers. May I ask this further question? Do you know of any case where the plaintiff was denied relief because he had accepted revenue from acts which, if perfomed by another without his consent, would constitute contributory infringement of the patent? That is number one.

Mr. Rich. The *Barber Asphalt* case, I think is typical of that, and to some extent the *Carbice* case. In the *Carbice* case there was a form of license on the invoice. In the *Barber Asphalt* case they tried to distinguish on the ground that they had no agreements with anybody, so that what they were doing was deriving revenue in the form of profits from the sale of the unpatented staple commodity for use in the invention.

Though because of stray passages like those involving Senator Saltonstall and Representative Crumpacker the legislative history is not crystal clear, we think the weight

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Mr. Rogers. So the court then said that that act constituted something leading toward monopoly or contrary to public policy, and for that reason denied relief to the plantiff?

Mr. Rich. That is correct.

Mr. Rogers. Now, as to No. 2, are there any cases where licensed authorized persons performed acts which, if performed without their consent, would constitute contributory infringement of the patents?

Mr. Rich. Well, that is the *Mercoid* type of situation.

Mr. Rogers. Yes.

Mr. Rich. It must, of course, be realized that if we had had a statute like this, the *Mercoid* case might have been tried differently, on a different theory. But it deals with granting licenses to people who would otherwise be contributory infringers, not direct infringers, because they are only making part or less than the whole of the invention.

Mr. Rogers. Well now, do you know of any case where they denied relief to the plaintiff where he had sought to enforce his patents rights against infringement or contributory infringement on this section 3?

Mr. Rich. Do you mean section 2, licensing?

Mr. Rogers. No, section 3 of (d).

Mr. Rich. That is sought to enforce?

Mr. Rogers. Yes.

Mr. Rich. That is the *Stroco Products* v. *Mullenbach* case.

Mr. Rogers. Then the effect of (d) with the (3) in there would be to say to the Supreme Court that it is the sense of this Congress that where you have heretofore denied relief to the plaintiff, you shall henceforth grant him relief if he has only performed one, two, or three of these acts in (d), and that is why the Department of Justice is objecting to it?

Mr. Fugate. Yes, sir.

Mr. Rogers. And it would therefore necessarily follow that by taking (c) and (d) together we are asking the Supreme Court to not follow the line of reasoning of declaring that a man shall be denied his day or damages if he has done any one of these three acts. Isn't that what it amounts to?

Mr. Rich. That he shall not be denied his day or damages merely because he has done one, two, or three, or all of these acts if the contributory infringement referred to in (d) is of a type which falls within the specific terms of (c).

[6556]

of it favors Rohm & Haas' reading of the statute. We are further confirmed in our view of section 271 by observing that the extremely narrow reading favored by defendants, though plausible, does not rest especially well on the wording of the provision.

[11, 12] All the parties seem to agree that subsection (d)(1) means that a patentee may sell unpatented elements of his invention. We add that, because of the explicit limitation of the right to "acts constituting contributory infringement," a term defined in paragraph (c) immediately before, apparently a patentee who is attempting to completely foreclose competitors is safe from a misuse defense only in selling products that are nonstaples, material parts of

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Now, a suggestion has come to me during this discussion which may bring the views of Justice and of the patent bar together. That would be to insert in the third line of paragaph (d) before the last word "by" the word "solely" so that he shall not be deemed guilty of misuse or illegal extension of patent rights solely by reason of his having done one or more of the following.

If he has gone beyond those and done other acts which could be misuse, then the misuse doctrine would be applicable.

Mr. Rogers. But then even with the word "solely" we would still say to the Court that if he had done one of these, he could now be permitted to recover?

Mr. Rich. If he has not misused it otherwise. If it comes within the terms of (c). If he tries to license somebody, for instance, to manufacture a staple article of commerce, to be sold in a patented invention and collect royalties, let us say, for manufacturing of salt tablets to be used in a patented vending machine or dry ice to be used in a patented shipping container, that will be misuse because it doesn't come within the terms of (c).

1951 Hearings at 174-75.

his invention, and capable of no substantial noninfringing use.[24] Subsection (d)(2)

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additionally allows a patentee to "license" another to do those same sorts of acts — that is, acts that would be contributory infringement (the selling of appropriate nonstaples) if done without permission.[25] As a commentator

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[24] The district court, in concluding that the rights specified in (d) are completely unrelated to the practices described in (c), overlooked the plain wording of the statute. Moreover, the intended incorporation of the limitations in (c) into the conduct allowed in (d) is, we think, clear from the legislative history set out at length in n. 23, *supra*.

The official Revisory Notes to section 271, relied on below, state that paragraph (d) is "ancillary to" paragraphs (b) and (c). But we do not read this linkage of sections (d) and (b), which contains no limitation to nonstaple material parts of the invention, as allowing a patentee to sell staples *and* to sue under (d) to completely foreclose competing sellers.

Since case law does not presently consider a patentee's mere sale of staples used in his invention to be "misuse" (as long as he does not tie use of the invention to purchase of the staple), we view the linkage as allowing such an innocent patentee to sue under (d)(3), without thereby being deemed a misuser, a competing seller of staples who is "actively inducing" infringement. The patentee's relief, however, would not be an injunction forbiddng the defendants' *sale* of staples, since mere sale is not wrongful under either (b) or (c). Appropriate relief might extend to an injunction against continuing to "actively induce" infringement, conduct forbidden by (b).

Reading (d) and (b) together more broadly so as to allow a patentee to tie mere staples to use of the invention would conflict with the clear legislative intent of preserving *Carbice*, while altering the *Mercoid* rule in favor of those who are not marketing their entire invention but are marketing material, nonstaple parts thereof. The broader reading would destroy the careful compromise of the drafters by endangering much more competition than the relatively small amount implicated in the markets for nonstaples uniquely attributable to a patented invention.

[25] This limitation parallels our interpretation in n. 24 *supra* and accords with the statements by Mr. Rich quoted in n. 23 that

has noticed, the rights to license another to sell such unpatented items would be rendered worthless if the only right conferred by (d)(1) were the right to sell the item as one competitor among many freely competing. Who would take a license, and on what terms, if anyone were free to compete, and the patentee had no legitimate right to exclude others from the market?[26] When one adds to this the realization that in (d)(3) Congress has also given the patentee the cumulative right to enforce its patent against those doing without permission — without "license" — what the patentee itself is doing, the impression becomes almost overpowering that Congress *did* clearly provide for a patentee's right to exclude others and reserve to itself, if it chooses, the right to sell nonstaples used substantially only in its invention.[27]

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The Supreme Court cases discussing section 271 are few and, as the able district court below recognized, none of them controls. Of the cases decided in this area since 1952,

an attempt by a patentee to license a competitor to sell mere staples for use in the invention would survive as misuse and thus bar a suit to enforce the patent.

[26] The statute permits the patentee to "license" or "authorize others to do the same acts which he himself is permitted to do by subsection (1). If the only act permitted by subsection (1) is the sale of components in competition with unlicensed suppliers, the "license" language is meaningless. Of what possible use is a "license" to compete when anyone can compete without a license? In order to give significance to the word "license," it must be assumed that the right of the patentee being licensed is somehow exclusive — that another supplier could not sell the component without the patentee's permission. If this is the case, both subsections must allow the patentee an exclusive right to sell components, precisely the type monopoly struck down in *Mercoid.*
Note, Combination Patents: The Right to Prohibit the Sales of Replacement Parts, 70 Yale L.J. 649, 656 (161).

[27] The district court read (d)(2) as giving Rohm & Haas "the right to authorize a third party by virtue of an implied license to resell the propanil for use in the patented method." This seems to refer to the right of one who buys propanil from Rohm & Haas to resell it to someone else. But if so, (d)(2) simply restates what has always been the right of *any* purchaser of an item, patented or not. Once an item has been conveyed, it passes beyond the patentee's monopoly power and the buyer can use it or sell it as he wishes. *See, e. g., Adams* v. *Burke,* 84 U.S. (17 Wall.) 453, 21 L.Ed. 700 (1873), and, more recently, *Aro Manufacturing Co.* v. *Convertibe Top Replacement Co.,* 377 U.S. 476, 497, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964). Surely no statute was required to save a license that operates as a *matter of law* from being deemed patent misuse.

Defendants would have us impose a *requirement* that a patentee like Rohm & Haas offer erstwhile competitors licenses, available to all comers at a reasonable royalty rate. *Then,* they say, it would be permissible for Rohm & Haas to sell propanil under (d)(1) in competition with its licensees and under (d)(3) to sue all competitors who refuse to accept a license and pay royalties. And along similar lines, the district court deemed Rohm & Haas' marketing program as even greater misuse than that accomplished by Mid-Continent in *Mercoid.* Mid-Continent offered licenses and sued only the manufacturer Mercoid, which refused to take a license, whereas Rohm & Haas has *refused* to license competitors.

This line of reasoning certainly states an attractive possibility. It allows a patentee economically to market his invention, yet preserves competition in propanil, which is, after all, not patented. As attractive as this compromise is, however, we cannot discern it in the statute. On the contrary, the statute explicitly allows a patentee to do "one or more of the following"— and merely coupling (d)(1) with (d)(3) allows the result we ratify here. Opponents of the bill saw this clearly. In the 1949 Hearings, Mr. John C. Stedman, Chief of the Justice Department's Legislation & Clearance Section, Antitrust Division, stated:

> [(d)] sounds reasonable and innocuous enough. Its effect, however, is to permit a patentee to sell unpatented parts for a device or composition covered by his patent or sell unpatented materials or apparatus for us with a process patented to him, and at the same time prohibit his competitors, by suit for infringement, from selling such unpatented materials in competition with him.

most are either silent regarding the effect of section 271 on *Mercoid,* probably because they involve staple items, or else they simply cite with approval *Mercoid's* various summations of the misuse doctrine. And indeed, apart from the

very narrow exception as to material nonstaples immunized by section 271, *Mercoid* remains an excellent summation of misuse considerations. Nevertheless, we cannot overlook the importance to our issue of two cases decided closely after section 271 was enacted, in which several members of the Court expressed the view that section 271 merely codifies patent law, including *Mercoid* and its result, and made no changes in the law such as those contended for by Rohm & Haas.

In *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 81 S.Ct. 599, 5 L.Ed.2d 592 (1961) (*Aro I*), and *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964) (*Aro II*), the Court faced actions for contributory infringement based on a claim that defendant's cloth tops for convertibles aided an infringing reconstitution of the patented mechanical top, rather than a noninfringing repair of the item. In *Aro I*, in the course of rejecting the claim, the majority cited *Mercoid* for the principle that the separate unpatented elements of a combination patent are not protected by the patent monopoly. The technical ground of the opinion, however, seemed to be the determination that the purchaser of an auto with a convertible top gains, along with the right to use the top, the right to replace its worn out parts. Unless his actions are so extensive as to become a prohibited reconstruction, his action in replacing, for example, fabric portions of the top, does not constitute an

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This is exactly the type of practice which the courts have unequivocally and consistently condemned, both under the patent laws and under the antitrust laws.

1949 Hearings at 52.

We decline to rule that a patentee *must* license under (d)(2) in order to use his rights under (d)(1) and (d)(3). A general licensing obligation is foreign to a statutory scheme in which patentees are free to suppress entirely or reserve for themselves their inventions.

infringing action. Without someone's committing of a *direct* infringement, there was of course no predicate for contributory infringement: there was no tort being committed in wich the seller of replacement tops could participate. Justice Harlan, joined by two others, dissented, arguing that the majority's reliance on *Mercoid* destroyed the significance of cases such as *Leeds & Catlin* that gave relief against contributory infringement on principles approved by Congress in section 271.

In *Aro II* Justice Brennan wrote for a different majority. In *Aro I* he had

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agreed with Justice Harlan's view of section 271 but had concurred with the majority on the simple ground that without a direct infringement no contributory liability was possible. The new majority now distinguished *Aro I* as involving only car buyers from manufacturers who had been *licensed* to make the patented convertible top in auto construction. In *Aro II*, by contrast, the replacement tops were also designed to renew the covering on cars manufactured by a company that had *refused* a patent license. The Court held in part that because this unlicensed manufacturer had no right to construct or convey the invention, buyers of these cars received no right even to *use* the invention, much less the right to repair it. Because the Court deemed each such repair by those buyers an independent direct infringement, the knowing seller of replacement tops was open to liability as a contributory infringer.

Justice Black, who had specially concurred in *Aro I* in part to emphasize his view that section 271 merely codified the *Mercoid* result, spoke for himself and three other dissenters. The real basis for *Aro I*, he argued, was not merely the lack of a direct infringement but also the recognition

grounded in the misuse cases that the scope of a patent can never properly extend to unpatented elements. He vehemently disapproved the majority's result, charging that the pattentee was being allowed to expand its monopoly, an unconstitutional result not within congressional patent clause power.[28]

Had this been all there was to the *Aro II* case, it would have been strong support for our reading of section 271. Unfortunately, however. the extraordinarily complex opinions, on balance, probably cut against our view.[29] Because the poli-

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cies involved in our factual situation — a primary use market — differ so from the policies involved in protecting competition in a market for unpatented elements to be used as mere replacement parts at the hands of one with a legitimate right to tinker with a patented device by reason

[28] The majority responded to this point by simply stating that they had "no doubt that § 271(c) as so construed and applied, within the limitations set forth in the succeeding portions of this opinion, is constitutional." 377 U.S. at 492 n.10, 84 S.Ct. at 1535 n. 10.

Defendants herein also challenge the constitutionality of the interpretation of the statute we have adopted. We believe, however, that it is well within congressional power to allow certain patentees incidental market power over items not technically withn the patent grant when this is necessary to effectively market and protect a patented invention.

[29] For instance, the majority left open the possibility that the patentee and its licensee might have been barred by the patent misuse doctrine had the issue been properly preserved by the defendant. 377 U.S. at 491-92, including n.9 84 S.Ct. 1526.

Moreover, the majority spoke of the congressional purpose in enacting section 271 as the desire to "reinstat[e] the doctrine of contributory infringement as it had been developed by decisions prior to *Mercoid,* and [to] overul[e] any blanket invalidation of the doctrine that could be found in the *Mercoid* opinions." *Id.* Any correlative effect upon the misuse doctrine was not alluded to.

of his absolute ownership thereof, we consider the *Aro* opinions as not controlling the result of our case.[30] In line with an earlier panel that concluded in dictum that section 271 "was intended to work some changes" in the concepts of patent misuse and that section 271 was "a congressional disapproval and legislative modification of the court-fashioned *Mercoid* principles," we do not feel that our

At another point the Court cited *Carbice* and *Mercoid* for the general proposition that a patentee cannot impose conditions concerning the unpatented supplies, ancillary materials or components with which the use is to be effected. 377 U.S. at 497, 84 S.Ct. 1526. The context of these remarks is quite different from the situation before us, since the attempt in *Aro* to restrict the sources of supplies for future repairs violated the long-standing patent principle that when a patentee has *sold* a patented article he has granted the purchaser an implied license to use, and he cannot thereafter restict that use. "So far as the use of it was concerned, the patentee had received his consideration, and it was no longer within the monopoly of the patent." *Adams* v. *Burke,* 84 U.S. (17 Wall) 453, 456, 21 L.Ed. 700 (1873). This principle is not involved in our situation. Nevertheless, there remains a suggestion that perhaps the majority would have considered any conditoning or tying as misuse, still prohibited irrespective of section 271(d).

And finally, though the majority upheld the plaintiff's right to recover damages from the contributory infringer, it practically instructed the district court not to award more than nominal damages. In addition to a reluctance to let a patentee bypass a ready target — the direct infringer auto manufacturer — to reach the contributory infringer who competes in the submarket, the policies behind this measure of damages were firmly based on misuse principles:

> [A different measure of damages] would enable the patentee to derive a profit not merely on unpatented *rather than* patented goods — an achievement proscribed by the *Motion Picture Patents* and *Mercoid Cases.* supra — but on unpatented *and* patented goods.

377 U.S. at 510, 84 S.Ct. at 1544 (original emphasis). The Court also stated that such a result "would be at war with virtually every policy consideration in this area of the law." *Id.*

[30] In addition to the *Aro* cases, the defendants cite *Deepsouth Packing Co.* v. *Laitram Corp.,* 406 U.S. 516, 92 S.Ct. 1700, 32 L.Ed.2d

independent consideration of section 271 is precluded by the "varying views" expressed by the justices in *Aro. Fromberg Inc.* v. *Thornhill,* 315 F.2d 407, 414 n.18 (5th Cir. 1963).

With this, we have about exhausted our present capacity for rational thinking on patent matters. As we noted during the oral argument of this case, patent cases are the only cases argued by professionals and decided by amateurs. We take some comfort in noting that any shortcomings of our effort can safely be laid to the difficulty of the subject matter. Mr. Giles S. Rich observed on several occasions during the hearings on section 271 that patent law is "the metaphysics" of the law and that contributory infringement/patent misuse issues are the metaphysics of patent law. In remanding this matter for further proceedings consistent with the above views, we gratefully leave untouched a correlative issue not technically before us: whether our analysis, coupled with the statutory command that patentees doing activities mentioned in (d) cannot be "deemed guilty of misuse or illegal extension of the patent right," affects the antitrust counterclaim filed herein by the defendants.

REVERSED and REMANDED.

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273 (1972), *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation,* 402 U.S. 313, 91 S.Ct. 1434, 28 L.Ed.2d 788 (1971), and *Zenith Radio Corp.* v. *Hazeltine Research, Inc.,* 395 U.S. 100, 89 S.Ct. 1562, 23 L.Ed.2d 129 (1969), as evidence of the continued validity of *Mercoid.* It is true that these cases contain ringing endorsements of patent misuse theory concerning the proper scope of a patent. However, we decline to rely on their general statements, made in context far afield from a patentee's effort economically to market his invention by sale of its unique, nonstaple elements, to reach a result contrary to the one we see so clearly in the statutory words and its legislative history.

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IN THE
UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS CO.,

Plaintiff,

v.

DAWSON CHEMICAL CO.;
CRYSTAL MANUFACTURING CORP.;
CRYSTAL CHEMICAL CO.;
and HELENA CHEMICAL CO.;

Defendants.

James C. Winters, Crain, Winters, Deaton, James & Briggs, Houston, Texas for plaintiff.

John L. McConn Jr., Butler, Binion, Rice, Cook & Knapp, Houston, Texas, for defendants Dawson Chemical Co., Crystal Manufacturing Corp. and Crystal Chemical Co.

B. R. Pravel, Pravel and Wilson, Houston, Texas, for defendant Helena Chemical Co.

MEMORANDUM AND OPINION

I. INTRODUCTION

In this suit for patent infringement of a combination patent plaintiff Rohm and Haas Company, as patent owner, alleges that defendant corporations have actively induced and otherwise contributed to the direct infringement of a

method or combination patient implemented in controlling weeds in rice crops. Defendants challenge plaintiff's right to relief contending that regardless of whether they have committed acts of infringement, Rohm and Haas is not entitled to relief because it has committed patent misuse in exploiting its patent.

Defendants Dawson Chemical Company, Crystal Manufacturing Corporation and Crystal Chemical Company have pursued the

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defense of this action independently from defendant Helena Chemical Company. The Court is thus confronted with two sets of motions and briefs on every contention raised by the parties. For purposes of this interlocutory order, unless otherwise noted, the Court has concluded that the relative positions of the four defendants coincide.

Three motions presently are pending before this Court. Specifically, defendants move for dismissal of plaintiff's complaint on the ground that the undisputed facts in this cause establish patent misuse as a matter of law, since this defense acts as a complete bar to plaintiff's action. Plaintiff moves that the Court enter a partial summary judgment ruling that its conduct does not constitute patent misuse under 35 U.S.C. § 271(d). The parties submit, and the Court agrees, that sufficient undisputed facts exist to permit an interlocutory ruling as to whether plaintiff's exploitation of its combination patent constitutes patent misuse.

The Court concludes after carefully analyzing the undisputed facts, the briefs submitted by the parties and the wealth of authority pertinent to this perplexing interface between the patent laws and the public policy notions undergirding our antitrust laws, that Plaintiff's present licensing policy, if sanctioned by this Court, would consti-

tute patent misuse. However, for reasons set out in Section V.B., *infra,* the Court has determined that the defendants' motions for partial summary judgment should be granted at this time only insofar as they seek an adjudication of the legality of plaintiff's monopolization of the sale of propanil, but should be denied to the extent that they seek dismissal of plaintiff's complaint. With the exception of the limitations set out in Section V.C., *infra,* defendants' motions for protective orders are denied at this time.

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II. MATERIAL FACTS

The following matters in this suit are not controverted:

1. Jurisdiction and venue are proper in this Court as to all parties and subject matter. 28 U.S.C. §§ 1338(a); 1400(b) and 35 U.S.C. § 271.

2. On June 11, 1974, United States Patent 3,816,092 issued to Harold F. Wilson and Dougal H. McRae (hereafter the "Wilson patent"). Rohm and Haas is and has been the sole owner of the Wilson patent since its issuance. The Wilson patent contains the following claims which are pertinent to this action:

> a. A method for selectively inhibiting growth of undesirable plants in an area containing growing undesirable plants in an established crop, which comprises applying to said area, 3, 4-dichloropropionanilide at a rate of application which inhibits growth of said undesirable plants and which does not adversely affect the growth of said established crop.
>
> b. The method according to claim 1 wherein the 3, 4-dichloropropionanilide is applied in a composition comprising 3, 4-dichloropropionanilide and an inert diluent therefor at a rate of between 0.5 and 6 pounds of 3, 4-dichloropropionanilide per acre.

c. The method according to claim 1 wherein most of the undesirable plants are destroyed by 3, 4-dichloropropionanilide applied thereto without substantial adverse effect on crop growing therewith.

d. The method according to claim 2 wherein the established crop is monocotyledonous.

e. The method according to claim 2 wherein the undesirable plants include monocotyledonous plants.

f. The method according to claim 2 wherein the undesirable plants include dicotyledenous plants.

g. The method according to claim 2 wherein the established crop is a grain crop.

h. The method according to claim 2 wherein the undesirable plants include barnyard grass.

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i. A method of selectivity inhibiting the growth of growing, tender, undesirable annual plants which are susceptible to 3, 4-dichloropropionanilide, said undesirable plants growing in an area contaning an established monocotyledonous crop which is resistant to 3, 4-dichloropropionanilide, which comprises applying to said undesirable plants a composition comprising 3, 4-dichloropropionanilide and an inert carrier therefor at a rate of application which inhibits growth of said undesirable plants and which does not substantially affect the growth of said established monocotyledonous crop.

3. Both before and after June 11, 1974, the issue date of the Wilson patent, defendants have sold formulations containing 3, 4-dichloropropionanilide, which is also known as "propanil". After they were served with the Complaint in this suit, such sales were with knowledge of the Wilson patent. Both before and after June 11, 1974, purchasers of defendants' propanil formulations have carried out in this country the method described on attached labels. Defen-

dants knew when they sold their propanil formulations that such formulations would be used by purchasers in carrying out the methods described on those labels. Defendants are continuing and intend to continue the making, selling and offering of propanil formulations in this country with the same recommendations and instructions. Defendants, however, contend that the Wilson patent is invalid and unenforceable, and that defendants are not liable as infringers or contributory infringers.

4. Based upon the representations of defendants that they have recommended the use of their propanil products only for controlling weeds in rice crops, plaintiff does not charge infringement of either claim 4, 5 or 7 of the Wilson patent.

5. Plaintiff makes and sells the chemical compound, 3, 4-dichloropropionanilide, known as propanil, in various

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formulations in this country with instructions to use the propanil in carrying out the steps of the Wilson patent. Purchasers of the plaintiff's propanil formulations in this country are impliedly licensed by operation of law to use the method of the Wilson patent. Each of defendants has requested a license under the Wilson patent. In reply to these requests, plaintiff maintains that it has no present intention of granting a license under the Wilson patent to any of the defendants, or to any propanil users except purchasers of propanil from plaintiff, who enjoy implied licenses by operation of law. To date, plaintiff has not granted a written license to anyone under the Wilson patent, and it does not presently intend to grant such a license. Plaintiff has never received any payment other than the purchase price from its propanil customers who employ the Wilson patent method.

6. In a suit by Monsanto Company against plaintiff for patent infringement, Monsanto's Patent 3,382,280 claiming the chemical compound, 3, 4-dichloropropionanilide *per se,* was held invalid. Propanil and the various formulations of it presently sold by plaintiff are therefore unpatented chemicals.

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The Court is aware of no opinion involving conduct which was factually congruent to the stipulated conduct of the parties to this action. Resolution of the question of patent misuse in this dispute is further complicated by broad language in the seminal opinion of *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661 (1944), which went beyond the facts confronting the Supreme Court in that opinion and threatened the continued vitality of the tort of contributory infringement in any context. In 1952 Congress enacted a new Patent Act codifying the three torts of patent infringement.

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35 U.S.C. § 217(a-c) (1952). Paragraph (d) of § 271 sets out certain acts of a patent owner which are not barred by the doctrine of patent misuse.

None of the parties dispute the general rule that a patent cannot be exploited to monopolize unpatented articles. Plaintiff argues, however, that a narrow exception to this rule lies whenever the unpatented article is a nonstaple component possessing no substantial, noninfringing uses. Plaintiff supports this contention on four grounds. First, it argues that Congress, in enacting § 271(d), intended to overrule completely the Supreme Court's opinion in *Mercoid, supra.* Second, it argues that the clear language used in § 271(d) expressly sanctions the conduct of the plaintiff in this action. Third, it contends that the

Supreme Court in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.,* 377 U.S. 476 (1964), expressly concluded that § 271(c-d) overruled the result in *Mercoid.* Finally, plaintiff maintains that the only two opinions squarely on point which were decided subsequent to the enactment of § 271 both sanctioned extensions of patented combinations to unpatented, nonstaple components.

In addressing these contentions the Court first examines the doctrine of patent misuse as it was applied prior to the Supreme Court's decision in *Mercoid, supra.* Section III.A.1, *infra.* The Court next considers the facts in *Mercoid* as they compare to the facts *sub judice,* as well as the broad language in that opinion which has spawned considerable controversy. Section III.A.2-4, *infra.* In Section III.B., *infra,* the Court examines the language and the legislative history of § 271. Finally, theCourt examines *Mercoid*-type misuse as it has been construed by the courts in the aftermath of § 271. Section III.C., *infra.*

III. THE PATENT MISUSE DOCTRINE

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Defendants support their contention that plaintiff has misused its method patent in seeking to monopolize sales of unpatented components by relying primarily on a line of Supreme Court decisions culminating with *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661 (1944), and *Mercoid Corp.* v. *Honeywell Co.,* 320 U.S. 680 (1944) (hereinafter *Mercoid I and Mercoid II,* respectively). In arriving at the conclusion reached in this interlocutory ruling, the Court has found it necessary to study carefully this line of decisions.

A. Patent Misuse Prior to the Enactment of § 271(d)

1. Supreme Court Decisions Antedating Mercoid

The Supreme Court, in *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 520 (1917), relying for the first time on a rationale which was subsequently to form the basis of the misuse defense, denied relief to a patentee who tried to enforce a tying arrangement which required the purchaser of a patented motion picture machine to limit use of the machine to unpatented film purchased from the patentee. Without considering the scope of the defendant's infringement, the Court denied relief wholly on the basis of the inequitable conduct of the patentee.

In 1931, and again without ever reaching the questions of patent validity or infringement, the Supreme Court applied the patent misuse doctrine to bar a suit for contributory infringement filed by a patentee which had explicitly required that users purchase from its exclusive licensee dry ice used in its combination patent. *Carbice Corp. of America* v. *American Patents Dev. Corp.*, 283 U.S. 27 (1931). In his opinion for the unanimous Court Mr. Justice Brandeis stated:

> "[The patent owner] has no right to be free from competition in the sale of [refrigerant]. Control over the supply of
>
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> such unpatented material is beyond the scope of patentee's monopoly; and this limitation, inherent in the patent grant is not dependent upon the peculiar function or character of the unpatented material or on the way in which it is used." 283 U.S. 27, 33.

In *Leitch Mfg. Co.* v. *Barber Co.*, 302 U.S. 458 (1938), the Court extended the patent misuse doctrine to apply in a situation wherein the owner of a process patent limited

the right to use the process to implied licensees who purchased unpatented bituminous emulsion from the patentee; no expressed licenses were granted. The Court characterized this attempt to monopolize the sale of an unpatented component as an "unauthorized extension of the [patent] monopoly." 302 U.S. at 463, which constituted misuse "whether the patent be for a machine, a product, or a process." *Id.*

In *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488 (1941), the Supreme Court upheld the trial court's action in granting summary judgement dismissing the complaint, without ruling on the issues of validity and infringement, holding that the patent owner's attempt to suppress competition in the marketing of unpatented salt tablets, specially made to fit the patented dispenser, was a misuse of the patent.

In *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1941), decided the same day as *Morton Salt Co., supra*, the rule of *Carbice* and *Leitch* was applied to bar relief from indirect infringement by a defendant who sold unpatented component products specially made for use in a patented process for reinforcing shoe insoles; the component had no other substantial commercial use. The patentee sought to ovoid *Carbice* and *Leitch* by arguing that the patent misuse doctrine should be limited to situations in which the components supplied by the alleged contributory infringer were staple articles of commerce. It argued that dry ice and bituminous coal were staple articles. The First Circuit Court of Appeals expressly

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considered and rejected this argument, 177 F.2d 829, at 834, 835, holding that "[t]here is every indication that the *Carbice* and *Leitch* cases apply to specially designed arti-

cles". *Id.* In a unanimous opinion the Supreme Court affirmed; without discussing the staple versus non-staple component question, the Court simply held that "in view of petitioner's use of the patent as the means of establishing a limited monopoly in its unpatented materials, . . . the maintenance of this suit to restrain any form of infringement is contrary to public policy . . ." 314 U.S. at 498. It is not clear whether the staple versus non-staple distinction was ever raised before the Supreme Court, or whether it was considered and rejected as legally insufficient to justify extending the patented process to monopolize the supply of unpatented components.

Although implicitly sanctioned in *B. B. Chemical, supra,* patent misuse in the context of non-staple and unpatented components of a patented combination did not enjoy the expressed imprimatur of the Supreme Court until 1944, when it decided *Mercoid I and Mercoid II, supra.*

2. *The Mercoid Decisions*

The patentee in *Mercoid I* held a combination patent for a furnace stoker system; its exclusive licensee manufactured one essential component of the unit, a stoker switch, and the right to assemble and install the patented system was conditioned upon the purchase of this stoker switch. The defendant, Mercoid Corporation, also manufactured these stoker switches which were exclusively designed for and usable in the patentee's stoker system. The defendant's customers were guilty of direct infringement whenever they installed the stoker system, and the Supreme Court assumed for purposes of its opinion that the defendant's stoker switch sales constituted contributory

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infringement. Relief was denied, however, on the ground that the patentee's licensing scheme constituted patent

misuse. The facts in *Mercoid II* were similar to those in *Mercoid I* except for the absence of any policy of granting express licenses exclusively to purchasers of the unpatented stoker switch. The Supreme Court held that the effect was the same, however, since restrictions on implied licenses constituted misuse, barring equitable relief.

Although the doctrine of patent misuse was firmly embedded in the jurisprudence of patent law well before the Supreme Court was confronted with the issues presented by the *Mercoid* cases, this equitable variation of "unclean hands" had never before been analyzed in a context wherein the Court focused on the fact that the "unpatented material or device [was] itself an integral part of the structure embodying the patent," 320 U.S. at 665, and "no use for the accused devices other than in the . . . combination patent" existed. *Id.* at 664. The Supreme Court concluded that "no difference in principle" existed between misusing a patent to monopolize materials employed or consumed in a machine or process, (such as dry ice, bituminous coal, salt tablets, or shoe insole materials), and misusing it to monopolize the supply of integral, albeit unpatented components. *Id.*

3. *Mercoid Contrasted with the Facts in this Action*

Two significant distinctions should be noted between the parties' conduct in *Mercoid* and the conduct at issue in the present case. First, the patent owner in *Mercoid* initially "granted and offered licenses to companies that would take them, including *Mercoid,* who refused". *Mid-Continent Inv. Co.* v. *Mercoid Corp.,* 133 F.2d 803, 810 (7th Cir. 1942). *See also Mercoid II, supra,* 320 U.S. at 683. Parties in the present case have stipulated that defendants

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have requested licenses under the Wilson patent, and plaintiff has unequivocally stated that it has no intention of

granting such licenses.[1] For this reason the patent misuse found in *Mercoid* applies *a fortiori* in the present context.

The second distinction lies in the conduct of the alleged infringers. The defendant in *Mercoid* was charged with selling stoker switches which contributed to the direct infringement of users of the plaintiff's patented combination. The defendants in this action are charged not only with contributing to direct infringement by its customers by supplying nonstaple propanil; they are also charged with the specific intent to induce direct infringement by labelling containers of propanil and otherwise actively encouraging others to infringe the Wilson patent. Although these two separate torts of indirect infringement are in many instances overlapping, *see* C. Miller, *Some Views on the Law of Patent Infringement by Inducement*, 53 J. PAT. OFF. SOC'Y 86, 98 (1971), the specific intent to cause direct infringement which is required in order to establish inducement is not a necessary element of contributory infringement. Likewise, the sale of a nonstaple article having no known noninfringing uses is not a necessary element of the tort of inducement. *Id.* Thus, the total infringing effect if all of the elements of both of these torts are established is potentially greater in the present case than it was in *Mercoid*. Although defendants' conduct does not illume the question of whether plaintiff's conduct constitutes patent misuse, the Court has concluded, Section V.B., that the defendants' conduct might well affect the ultimate relief granted in this case.

4. *The Dictum in Mercoid I*

The *Mercoid* decisions severely restricted the well-established doctrine of contributory infringement. To the

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extent that the Court had not previously acknowledged expressly that the principle in *Carbice* applied in the context of a non-staple component possessing no known non-infringing use, the defense of patent misuse reached a new milestone in the *Mercoid* decisions. Beyond that, however, the Supreme Court in sweeping dictum also cast a pale on the doctrine of contributory infringement in any context, regardless of whether the patentee's conduct constituted patent misuse.

> "The result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider." 320 U.S. at 669.

This Court has concluded that when Congress enacted the Patent Act of 1952, the inclusion of § 271 was intended to mollify the potential effect that this dictum could have on the patent owner's ability to protect his property against contributory infringers in any context, whether or not he was seeking to monopolize the sale of unpatented articles. The interpretation simply restores the remedy of contributory infringement as it was applied prior to *Mercoid*.

B. 35 U.S.C. § 271

Section 271[2] represents the first congressional effort to codify the parameters of the common law doctrines of patent infringement. As stated before, it is generally accepted that § 271 was prompted by the *Mercoid* decisions.[3] However, it is somewhat more difficult to determine whether the substantive holding of *Mercoid* — that a combination patent may not be enforced against sellers of unpatented non-staple components possessing no known non-infringing uses — or whether the broad dictum in that decision precipitated the enactment

of § 271[4]. Based on a consideration of (1) the language of this section, (2) its legislative history, (3) its application by the courts, and (4) the post-1952 vitality of *Mercoid* in numerous opinions, this Court has concluded that the facts addressed by the Supreme Court in *Mercoid* would not mandate a different conclusion under § 271. This Court is further of the opinion that the patentee *sub judice,* by seeking to monopolize the sale of an unpatented component of its protected method without even attempting to license other manufacturers, is exploiting its patent in a manner which is less legitimate than the exploitation condemned by the Supreme Court in *Mercoid.* Section III. A. 3., *supra.*

Plaintiff submits that until substantial uses for propanil are discovered other than in plaintiff's patented method, plaintiff is entitled to monopolize the supply of this unpatented chemical compound. Plaintiff further contends that it has no obligation to alter its present "no licensing" policy until and unless such noninfringing uses for propanil are discovered. Although defendants' direct or indirect infringement of plaintiff's patent presents no threshold inquiry in resolving the patent misuse issue, *see Morton Salt Co.* v. *G. S. Suppiger Co., supra,* 314 U.S. at 490, a brief consideration of the interrelation of the four paragraphs of § 271 is nevertheless necessitated by the plaintiff's contention.

Paragraph (a) of § 271 defines "direct infringement" as the using, making or selling of a patented invention. Paragraphs (b) and (c) codify two doctrines of indirect infringement; active inducement of direct infringement, and contributory infringement. Paragraph (d) sets out

three acts the commission of any one or more of which by a patentee seeking to protect and exploit his patent cannot be relied upon by an infringer as the sole basis for its defense of patent misuse.

1. *Emergence of the Doctrines of Indirect Infringement Embodied in Paragraphs (b) and (c) of 35 U.S.C. § 271*

The Constitution provides for Congress to promote "the Progress of Science and Useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST. art. I, § 8. In accordance with this provision of the Constitution, Congress enacted the first patent act in 1790 which established the exclusive right of inventors to exploit their discovery. Patent Act of April 10, 1790, ch. 7, 1 Stat. 109. *See also* 35 U.S.C. § 154 (1952).

An early principle of the law of combination patents established that direct infringement would not lie unless the combination in its entirety was used. *See Prouty* v. *Draper Ruggles & Co.,* 41 U.S. 335 (16 Pet.) (1841). It soon became apparent, however, that the doctrine of direct infringement was inadequate to protect effectively the patentee's invention.[5] Two distinct doctrines of indirect infringement therefore were developed to protect the inventor.

The doctrine of contributory infringement as it presently is codified in § 271(c) was recognized in the early case of *Wallace* v. *Holmes,* 29 F. Cas. 74 (No. 17,100) (C.C. Conn. 1871).[6] In this case, the defendant sold burners which had no known use except in the patentee's invention. The court concluded that the act of selling these burners constituted a "virtual" infringement of the protected patent.

In *Bowker* v. *Dows,* 3 F. Cas. 1070 (No. 1734) (C. C. Mass. 1878), the court found liability for infringement in a context foreshadowing the indirect infringement doctrine of inducement. The defendant sold an unpatented component of the patentee's patented chemical compound. Unlike the burners in *Wallace, supra,* this chemical component had various commercial uses; however, the defendant advertised that the compound could be used in the particular manner claimed in the plaintiff's patent. The Court concluded that the defendant's act of encouraging infringement rendered him a joint tortfeasor.

Section 271(b) provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer". It is quite clear from the language of this provision that the board tort of infringement by inducement is not restricted in any way to unpatented component articles v hich lack any substantial non-infringing use. Liability for contributory infringement under section 271(c), on the other hand, is far more restrictive:

> "Whoever sells a component of a patented machine, manufacture combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially adapted for use in an infringement of such patent *and not a staple article or commodity of commerce suitable for substantial noninfringing use,* shall be liable as a contributory infringer." (Emphasis added)

Paragraphs (b) and (c) of § 271 codify the type of conduct which will give rise to a cause of action for indirect infringement of a patent. Neither of these paragraphs delineates or refers to conduct of a patentee that constitutes

patent misuse, which is the essence of the defendants' motion for partial summary judgment. Paragraph (d) is the only paragraph of § 271 which addresses the conduct of a patentee.[7]

2. *Patent Misuse Under § 271(d) of 35 U.S.C.*

Section 271(d) provides that:

> "[N]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement."

The plaintiff takes the position that the language of this provision expressly sanctions its licensing policy.

The Court notes three aspects of this provision which are immediately apparent before turning to legisative history or judicial construction. First, presuming actionable infringement, § 271(d) focuses solely on the conduct of the patent owner, and not the alleged infringer. Second, § 271(d) does not define conduct which equates to patent misuse; this paragraph simply sets out certain conduct which does *not* constitute patent misuse. Finally, § 271(d) does not limit or condition the conduct it describes on the staple or nonstaple nature of component articles of a combination patent. The only reference in § 271 to the staple or nonstaple nature of component articles can be found in

paragraph (c), which focuses solely on conduct of an infringer that gives rise to an action for contributory infringement.

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The Revisory Notes to § 271 state that paragraph (d) is ancillary to paragraphs (b) and (c). Provided that the patent owner successfully establishes that the defendant is guilty of either actively inducing or contributing to infringement, "[he] is not deemed to have misused his patent *solely* by reason of doing anything authorized by the section." *Id.* No combination of one or more of the three patent owner acts set out in § 271(d) can form the sole basis for a finding of patent misuse.

3. *Legislative History*

The intent of Congress with regard to the effect that § 271 should have on the result in the *Mercoid* decisions has been the subject of numerous commentaries.[8] During the Senate debate, just before the bill was passed, Senator Saltonstall asked on the floor, "Does the bill change the law in any way or only codify the present patent laws?" Senator McCarran, Chairman of the Judiciary Committee which had been in charge of the bill for the Senate, responded, "It condifies the present patent laws." 98 Cong. Rec. 9323 (July 4, 1952). To the extent that this exchange represents a knowledgeable consideration of the substance of § 271, it would support the conclusion that the only purpose of this section was to prevent the total emasculation of the law of contributory infringement threatened by the dictum in *Mercoid.* This otherwise innocuous exchange bears repetition in this ruling not because of the insight that it represents or reveals, but rather, because this colloquy between Senators has been quoted by the Supreme Court on at least two separate occasions.[9]

A statement made by Mr. Giles S. Rich, the chief draftsman of the provisions on contributory infringement in § 271, was somewhat more reflective on the scope of patent

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misuse contemplated or intended by Congress:

> "Mr. Rich. . . .
>
> "Other decisions following *Mercoid* have made it quite clear that least some courts are goint to say that *any effort whatever* to enforce a patent against a contributory infringer is in itself misuse. . . . Therefore, we have always felt — we who study this subject particularly — that to put any measure of contributory infringement into the law, you must, *to that extent and to that extent only,* specifically make exceptions to the misuse doctrine, and that is the purpose of paragraph (d)."
> (Emphasis added)

Hearings before the subcommittee of House Judiciary Committee on H. R. 3760, 82d Cong. 1st Sess. 161-162 (1951), *cited in Aro Mfg. Co.* v. *Convertible Top Co.,* 365 U.S. 336, 349, *note* 4 (1961) (Black, J. concurring) (*Aro I*).[10] "To that extent and to that extent only." this Court would concur that any dictum in *Mercoid* which can be construed to condemn as misuse "any effort whatever to enforce a patent against a contributory infringer" has been preempted by § 271(d). Section 271 assures the viability of contributory infringement actions, but it does not compel the overruling of the result in *Mercoid.*

4. *Conduct of Rohm and Haas Perceived Through the Lens of Section 271 (d)*

As noted earlier, in enacting § 271(d), Congress, rather than attempting to define the parameters of the defense of misuse, sought instead to delineate three exceptions to this doctrine. It is not disputed that the first exception set out in § 271(d)(1) sanctions plaintiff's right to sell propanil, an act which this Court assumes for purposes of this ruling, would constitute contributory infringement if performed by another without plaintiff's consent. This act in and of itself therefore cannot constitute patent misuse, by statutory definition. Nor is it disputed that plaintiff,

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under § 271(d)(2), has the right to authorize a third party by virtue of an implied license to resell the propanil for use in plaintiff's patented method.

Finally, it is clear that § 271(d)(3) eliminates the fear created by *Mercoid,* that the mere filing of a law suit alleging indirect infringement in and of itself constitutes misuse. *See* Note, 66 HARV. L. REV. 909, 917 (1953). *Cf. W. L. Gore & Assoc., Inc.* v. *Carlisle Corp.,* 529 F.2d 614 (3d Cir. 1976). It is plain from the language of § 271(d) that no "one or more" of the three foregoing acts will give rise to the defense of patent misuse. Defendants argue, however, that plaintiff has gone beyond the sum of the acts rendered permissible by § 271(d). They further maintain that while § 271(d) permits plaintiff to sell the unpatented propanil, the act does not permit plaintiff to monopolize such sales.

Defendants also maintain that they are and have at all times been willing to pay royalties to plaintiff for licenses to sell propanil for use in plaintiff's patented method. It is plaintiff's refusal to license which defendants maintain is the act not sanctioned by any of the exceptions to the

misuse doctrine set out in § 271(d). Defendants submit that § 271(d) does not require this Court to legitimize a scheme by which a patent owner licenses others on the explicit condition that the licensee purchase an unpatented component from the patent owner. This refusal to grant licenses to the defendants, coupled with plaintiff's acts which are specifically sanctioned by § 271(d), results in the scheme which the defendants argue would impermissibly extend the Wilson patent.

Plaintiff's response to this contention is that it enjoys an unrestricted right to refuse licenses to defendants which would permit defendants contributorily to infringe the Wilson patent.[11] In support of this contention plaintiff

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maintains that a patent owner "is neither bound to use his discovery himself nor permit others to use it," *citing Continental Paper Bag Co.* v. *Eastern Paper Bag Co.,* 210 U.S. 405, 425 (1908), and *Cataphote Corp.* v. *DeSoto Chemical Coatings, Inc.,* 450 F.2d 769, 744 (9th Cir. 1972), *cert. denied,* 408 U.S. 929 (1972). Neither of these cases involved the attempted extension of a patent right to monopolize the sales of unpatented components. The context of this rule in *Continental Paper Bag* involved a patentee's right to hoard his discovery. In *Cataphote* the Court simply upheld a patent owner's right to restrict the marketing of his patent to one exclusive licensee. The plaintiff *sub judice* is neither hoarding his patent nor limiting its monopolistic effects to the actual claims of its patented method. Moreover, "[t]he fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use." *Blonder-Tongue* v. *University Foundation,* 402 U.S. 313, 344 (1970).

Still focusing on the conduct of plaintiff as it bears on the defense of patent misuse, defendants advert to a brief portion of the history of litigation pertaining to propanil in federal courts. In 1970 plaintiff, as defendant in *Monsanto Co.* v. *Rohm & Haas Co.*, 312 F. Supp. 778 (E.D. Pa. 1970), *aff'd*, 456 F.2d 592 (3d Cir. 1972), successfully argued that a patent which had been issued for the chemical compound propanil should be declared invalid. Plaintiff succeeded in pursuading the court in *Monsanto* that propanil:

> "was for all purposes in the public domain and cannot be patented as a compound . . . . [T]he inventor of the novel property of the compound is not without recourse since he may patent the use of 3, 4-DCPA [propanil] as a selective post-emergence herbicide."

Id. at 790. Therefore, prior to the issuance of the Wilson

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patent, propanil was declared "for all purposes in the public domain". With regard to matters belonging to the public, the Supreme Court has held that:

> "a patent is not, accurately speaking, a monopoly . . . . The term "monopoly" connotes the giving of an exclusive privilege for buying, selling, working or using a thing which the public freely enjoyed prior to the grant. Thus a monopoly takes something from the people. An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the community by adding to the sum of human knowledge."

United States v. *Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933). Plaintiff seeks in this lawsuit to monopolize the sale of propanil by taking it from the public domain. This Court is aware of no decision wherein the patent laws have been construed to permit such a taking.

Construed broadly, § 271(d) could be read to embrace the plaintiff's efforts to corner the market on all sales of unpatented and unpatentable propanil. However, the language of this provision is hardly a "clear and certain signal from Congress" that prior cases should be overruled. *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 530 (1971). The language of § 271(d) simply does not encompass the totality of plaintiffs' conduct in this case.

Neither the Supreme Court nor the United States Court of Appeals for the Fifth Circuit has construed § 271(d) to overrule the result in the *Mercoid* decisions. Section III.C.1.-3, *infra.* Although neither of these Courts has confronted this question in the precise context of a *Mercoid*-type misuse, both have continued to cite *Mercoid* as good authority.[12] Certainly the enactment of § 271 quelled the broad dictum in *Mercoid.* However, if it likewise overruled the result in *Mercoid,* it is incongruous that *Mercoid* is nevertheless still cited as good law.

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C. Mercoid-Type Misuse Subsequent to the Patent Act of 1952

1. *The Supreme Court's Decision in Aro II*

Plaintiff contends that the Supreme Court's holding in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 492 (1964) (hereafter *Aro II,)* demonstrates that § 271(d) was clearly intended to and did reverse the *Mercoid* rulings:

> ". . . Congress enacted § 271 for the express purpose of reinstating the doctrine of contributory infringement as it had been developed by decisions prior to *Mercoid,* and of overruling any blanket invalidation of the doctrine that could be found in the *Mercoid* opinions."

377 U.S. at 476. This contention is without merit for several reasons. First, as noted previously by the Court, Section III.A., *supra,* the *B. B. Chemical Co.* v. *Ellis* opinion rendered three years before *Mercoid* held that an action for contributory infringement was defeated by the application of patent misuse on facts very similar to the cause here pending. Therefore, "contributory infringement as it had been developed by decisions prior to *Mercoid*" did not authorize or sanction patent extensions which effected a monopoly over unpatented components. Also, "prior to *Mercoid*" the doctrine of contributory infringement did not suffer from the sweeping language used by Justice Douglas which cast a doubt on the surviving "residuum" of this tort in *any* context. Moreover, in construing § 271 to overrule "any blanket invalidation of [contributory infringement]," the Supreme Court chose language which carefully avoided overruling the *Mercoid* result in toto. Finally, the language which is relied upon by plaintiff in *Aro II* was not intended by the Supreme Court to signal the complete demise of *Mercoid* because the Court resurrects *Mercoid* some five pages later in the opinion, 377 U.S. at 497, by stating in reference to a patent owner seeking to monopolize the sale

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of an unpatented, nonstable fabric component:

> "In particular, the patent owner cannot impose conditions concerning the unpatented supplies, ancillary materials, or components with which the [patented] use is to be effected."

Aro II, supra, 377 U.S. at 497.[13]

2. *Supreme Court Rulings Subsequent to Aro II*

Decisions rendered by the Supreme Court since *Aro II* which address the question of the permissible scope of a

combination patent demonstrate that *Mercoid* continues to retain vitality. *Deep South Packing Co.* v. *Laitram Corp.,* 406 U.S. 518 (1971); *Blonder-Tongue* v. *University Foundation,* 402 U.S. 313 (1970); *Zenith Radio Corp.* v. *Hazeltine Research, Inc.,* 395 U.S. 100 (1969).

In *Deep South Packing Co.* v. *Laitram Corp., supra,* the Supreme Court reversed a decision by the United States Court of Appeals for the Fifth Circuit which had held that a defendant who exported unpatented parts of an easy-to-assemble, patented combination, was guilty of direct infringement for "making, using, or selling any patented invention within the United States". 35 U.S.C. § 271(a). The Supreme Court reversed. Citing *Mercoid II,* the Supreme Court premised its reversal on the "unassailable" rule that "a patent on a combination is a patent on the assembled or functioning whole, not on the separate parts". 320 U.S. at 684[14] The Supreme Court proceeded to set out a rigorous test for advocates who would urge that the Patent Act modified or overruled prior cases.

> "[W]e should not expand patent rights by overruling or modifying our prior cases construing the patent statute, unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language. We would require a clear and certain signal from Congress before approving the position of a litigant who, . . . argues that the beachhead of privilege is wider, and the area of public use

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> "narrower, than Courts had previous thought. No such signal legitimizes respondents' position in this litigation."

406 U.S. at 530.

In *Blonder Tongue* v. *University Foundation,* 402 U.S. 313 (1970), the Supreme Court, while "recognizing the

patent system's desirable stimulus to invention," cited *Mercoid* as one of a "series of decisions in which the [Supreme] Court has condemned attempts to broaden the physical or temporal scope of the patent monopoly".[15] *Id.* at 343.

Zenith Radio Corp. v. *Hazeltine Research, Inc., supra,* and *United States* v. *Loew's, Inc.,* 371 U.S. 38, 46 (1962), do not deal with § 271(d) or its effect on the *Mercoid* rule,[16] but it is nevertheless evident that the language in these opinions reveals a great reluctance on the part of the scope of his property rights beyond the claims of his patent.[17]

3. *Lower Court Decisions*

a. *The Fifth Circuit*

The United States Court of Appeals for the Fifth Circuit has not construed § 271 in the context of a *Mercoid*-type misuse, although it has indicated in dictum that the result in *Mercoid* still maintains some vitality.[18] In *Fromberg, Inc.* v. *Thornhill,* 315 F.2d 407 (5th Cir. 1967), the Court of Appeals cited *Mercoid* for the general rule that any effort to extend a combination patent to monopolize an unpatented component would be patent misuse, 315 F.2d at 412, but acknowledged that the enactment of "§ 217 was intended to work some changes in these concepts". 315 F.2d at 412, n.13. The Court expressly reserved judgment on the reach or purpose of such changes. *Id.* at 414, n.18. The law in this Circuit

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as to whether patent owners can monopolize the sale of nonstaple components of their patent is therefore unsettled.

b. *Other Lower Court Decisions*

Plaintiff cites two post-1952 decisions which it maintains are the only authorities squarely on point with the case at bar. *Harte & Co., Inc.* v. *L. E. Carpender Co.,* 138 U.S.P.Q. 538 (S.D.N.Y. 1963); *Sola Electric Co.* v. *General Electric Co.,* 146 F. Supp. 625 (N.D. Ill. 1956). In *Sola* the plaintiff owned a patent on a combination of unpatented components to be used in an alternating current supply system. Like the patentee in *Mercoid,* and the patent owner *sub judice,* the plaintiff and his licensees derived their income from sales of unpatented, nonstaple components. Licenses were granted only to customers who purchased the unpatented components sold by the plaintiff or his licensees. The court held that the patent was invalid and therefore unenforceable. 146 F. Supp. at 646.

Although it was wholly unnecessary to do so in light of the court's ruling on the invalidity of the patent, the court went on to consider the defendant's allegation of patent misuse, concluding that § 271 had indeed overruled the result in the *Mercoid* decisions. This Court does not agree with this conclusion. However, it is more important to note that the licensing policy in *Sola,* unlike the policy *sub judice,* did not effect a monopoly in unpatented components — licensed use of the *Sola* patent was not conditioned exclusively on purchases of the unpatented component from the patent owner. The patent owner in *Sola* exploited its patent in two ways. First, it collected royalties from licensees who in turn manufactured and marketed the unpatented component. Second, it derived profits from the sale of unpatented components,

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which were presumably priced to compete with the plaintiff's competitor-licensees. Section 271(d)(1) clearly per-

mits an owner of a combination patent to compete with other manufacturers in the sale of unpatented components. Plaintiff Rohm and Haas, on the other hand, is urging its right to eliminate competition wholly by monopolizing the sale of unpatented and now unpatentable propanil.

The patent in *Harte* involved an ornamental design for resinous plastic material used in raincoats, shower curtains and upholstery. The defendant patent owner required its licensees to purchase from the defendant all embossing rollers used in the patent design. These rollers were used exclusively in the defendant's design and thus were nonstaple items. In its findings the court held that the "rollers were sold by [the patent owner] at cost, and without intent to restrain competition in or monopolize the production of the rollers." 138 U.S.P.O. at 583. The court concluded that sales of the rollers did not constitute patent misuse since such sales were based on the defendant's skills and experience in the design field, and hence not conditioned on the defendant's ownership of the patented design.

Unlike the *Harte* plaintiff, the plaintiff at bar does not contend that it sells its propanil at cost in order to secure licenses for its patented method; nor does it make any pretense as to its intent to eliminate competition by monopolizing the sale of propanil. There is also no contention here that plaintiff's propanil is in any way superior to the propanil sold by the defendants. Notwithstanding plaintiff's reliance on this opinion, the Court is unable to agree that the rationale of *Harte* applies in the present context.

Post-1952 authority cited by defendants supports the broad proposition that a patent on a combination

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does not secure a monopoly on any of the unpatented components of that combination, and whether those components

are staple or nonstaple is a factor which the courts have simply ignored in applying this principle. *See* M. Nelson, *Mercoid-Type Misuse is Alive,* 56 J. PAT. OFF. SOC'Y 134 (1974), and cases cited therein. *See also McCullough Tool Co.* v. *Wells Surveys, Inc.,* 343 F.2d 381 (10th Cir. 1965).

Plaintiff distinguishes defendants' cases on various grounds, including the fact that some do not deal with nonstaple components. *E.g., Calhoun v. United States,* 339 F.2d 665 (Ct. Cl. 1964), *Sonobond Corp.* v. *Uthe Technology,* 314 F. Supp. 878 (N.D. Cal. 1970). For example, it is urged that the unpatented component at issue in *Sonobond* possessed many uses outside of the patent in dispute. Plaintiff concludes that § 271(d) was therefore inapplicable in *Sonobond* because the condition precedent to its applicability—the existence of a nonstaple article whose sale would constitute contributory infringement—simply could not be satisfied. As noted in Section III.B.1., *supra,* the Revisory Notes to § 271 belie this interrelation between the four paragraphs of § 271. Only the tort of contributory infringement, as defined in paragraph (c) is limited to the sale of nonstaple articles. Neither direct infringement under paragraph (a), nor induced infringement under paragraph (b) limits the applicability of these respective torts to nonstaple components. Paragraph (d) is ancillary to all three of the paragraphs which precede it. Therefore, regardless of whether the infringing article is staple or nonstaple, patent misuse may be an appropriate defense.

Plaintiff also argues that cases in which royalty rates are determined to be discriminatory because they are based on whether the licensee purchased unpatented components from the patent owner are not apposite to the present facts.[19]

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However, in the context of patent misuse it is clear that discriminatory royalty rate cases are applicable at least to the limited extent that the discriminatory rate unduly stifles or effectively destroys competition in the sale of unpatented components. In the present context, if plaintiff had offered at a prohibitive cost to license defendants, the stifling effect might well be functionally indistinguishable from a refusal to license at any price.

It is not necessary to consider all of the authority cited by defendants. The Supreme Court in *B. B. Chemical Co., supra,* and *Mercoid I* and *II, supra,* characterized efforts to effect a monopoly over unpatented components as patent misuse, whether the component was nonstaple or otherwise. Neither the legislative history nor the language of § 271 indicates that this rule has been modified. In determining whether such a modification has transpired, it is sufficient to conclude that the Court is aware of no authority that construes § 271 to sanction, on grounds that the monopoly sought extended to a nonstaple component, patent owner conduct which would otherwise constitute patent misuse.

IV. DEFENDANT'S COUNTERCLAIM FOR ANTITRUST VIOLATIONS

Defendants have filed counterclaims in this action alleging violations of the antitrust laws, 15 U.S.C. §§ 1, 2 and 14. Defendants also seek declaratory relief under 28 U.S.C. § 2201, pronouncing the Wilson patent invalid and unenforceable. Nothing in this ruling should be construed to be determinative of any of the matters raised by defendants in their counterclaims. While conduct of a patent owner which constitutes a violation of the antitrust laws would usually, if not always, constitute patent misuse as a matter

of law, the congruence of patent misuse and violations of antitrust laws

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has long been an unsettled question. It was unclear until recently whether a finding of patent misuse required proof of an antitrust violation. *See Hensley Equipment Co.* v. *ESCO Corp.,* 383 F.2d 252, note 19 (5th Cir. 1967). In *Zenith Radio Corp.* v. *Hazeltine Research, Inc.,* 395 U.S. 100, 140 (1969), the Supreme Court removed all lingering doubts in holding that a finding of patent misuse did not necessarily constitute an antitrust violation under the Sherman or the Clayton Acts. *See also* T. Maffei, *The Patent Misuse Doctrine: Balance of Patent Rights and the Public Interest,* 52 J. PAT. OFF. SOC'Y 178 (1970). The ruling *sub judice* is limited to the question of patent misuse.

V. CONCLUSION

A. Plaintiff's Motion for Partial Summary Judgment to Strike Defendants' Allegations of Patent Misuse

The Court in this ruling has determined first that the result in the *Mercoid* decisions dictates a finding of patent misuse in this action as a matter of law, based upon stipulated facts. Additionally, the Court has concluded that plaintiff's attempt to monopolize the sale of propanil in this case by refusing to license under any circumstances constitutes an extension and exploitation of its patent exceeding the patent exploitation condemned by the Supreme Court in the *Mercoid* decisions. Neither the legislative history, nor the subsequent judicial construction of § 271 supports the plaintiff's contention that the test for patent misuse is in any manner dependent upon the staple or nonstaple nature of the infringing article. Patent misuse is an equitable defense which, if established, bars a patent owner seeking equitable relief for direct infringement under

§ 271(a), active inducement of infringement under § 271(b), or contributory infringement under § 271(c).

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Section 271(d) patent misuse is expressly ancillary to these three codified torts of patent infringement. Revisory Notes, 35 U.S.C. § 271 (1952).

Section 271(d) does not create a cause of action against a mala fide patent owner. Patent misuse arises only as a defense to an action for infringement. It becomes germane only after the court determines or assumes that there has been an infringement under paragraphs (a), (b) or (c) of § 271. Congress could easily enough have provided that any owner of a combination patent is permitted to monopolize the sales of unpatented, nonstaple components which lack any substantial noninfringing use. It did not do so. Plaintiff, by seeking to incorporate the staple-nonstaple issue into the construction of § 271(d), confuses analysis of the patent owner's conduct with that of the infringer.

This finding of patent misuse in no way resolves the question of validity of the Wilson patent; moreover, once the patentee has purged itself of the effects of its patent misuse, it may seek once more to enforce its patented method by reasserting its allegation of contributory infringement. *Hensley Co.* v. *ESCO Corp.*, 383 F.2d 252, 261 (5th Cir. 1967). For reasons set out in this ruling, however, the Court holds that plaintiff's present policies constitute patent misuse.[20]

B. Defendants' Motion for Partial Summary Judgment Urging Dismissal of Plaintiff's Complaint

Defendants' motions for summary judgment to strike the plaintiff's allegations of indirect infringement on the

grounds that such allegations are barred by the misuse of plaintiff's patent confronts this Court with a problem not wholly resolved by the denial of plaintiff's motion for partial summary judgment. The Supreme Court in *Morton Salt Co.* v. *G. S. Suppiger*, 314 U.S.

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488 (1942), indicated that when misuse of the patent is established as a matter of law prior to trial, the patent owner's complaint should be dismissed without prejudice to purge the misuse and thereafter seek relief. In this ruling the Court has concluded that the plaintiff cannot market propanil, refuse to license others to compete in such sales, and then file a suit with the object of securing a monopoly over the sale of propanil. This Court, by enjoining defendants from selling propanil, would effectuate this monopoly. On the other hand, plaintiff has alleged both contributory infringement and active inducement of infringement. Appropriate relief for active inducement of infringement could conceivably be fashioned to avert this wrongdoing and at the same time avoid an impermissible extension of plaintiff's patent to an unpatented combination. If defendants' labels and advertising are ultimately proven to constitute active inducement of infringement of the Wilson patent, defendants, in urging dismissal of this suit, in effect seek

> "a continuing immunity from suit, . . . blithely continu[ing] to practice the arts of piracy, . . . while pointing . . . finger[s] at plaintiff as unclean [and are] not Daniel[s] come to judgment, but Satan[s] quoting the Scripture to [their] purpose."

Gray Tool Co. v. *Humble Oil & Refining Co.*, 186 F.2d 365, 368 (5th Cir. 1951), *cert. denied*, 941 U.S. 934 (1951). This

piracy, if proven, can and should be prohibited by the Court.

Issues remaining to be resolved in this case include the validity of the Wilson patent and whether it has in fact been infringed by the defendants, as well as the various anti-trust allegations raised in the defendants' counterclaims. This ruling is only a pre-trial, interlocutory adjudication of the question of patent misuse in the context of plaintiff's present licensing policies. It is based entirely on facts stipulated by the parties. Like infringement, patent misuse.

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involves ongoing conduct. If appropriate, this ruling is subject to revision by this Court since it has no res judicata effect. 6. J. Moore, Federal Practice ¶ 56.20 [3-4] (2d ed. 1976); *see also Bon Air Hotel, Inc.* v. *Time, Inc.*, 426 F.2d 862 (5th Cir 1970); Rule 54(b) Fed. R. Civ. P.

In a case of this complexity, both with respect to the resolution of the pending motions, as well as the ultimate decree entered in this cause, this Court will be guided by the wisdom of Chief Judge Hutcheson, who was confronted by similar facts in *Gray Tool Co.* v. *Humble Oil & Refining Co., supra.*[21] Defendants' motions for partial summary judgment are granted at this time insofar as they seek an injunction of the legality of plaintiff's monopolization of the sale of propanil, but are denied to the extent that they seek dismissal of plaintiff's complaint.

C. Pending Motions for Protective Orders Under Rule 26(c), Fed. R. Civ. P.

Defendants have filed motions for protective orders under Rule 26(c), Fed. R. Civ. P., seeking to stay discovery pending resolution of the three outstanding motions for

summary judgment. With the exception of a motion for protective order filed by defendant Helena Chemical Corporation, which seeks to quash notices of depositions given to a Mr. Jerry A. Williams and a Mr. J. C. Blue, the sole basis submitted for the requested orders was the pendency of arguably dispositive motions for summary judgment. This ground no longer applies; therefore, all motions for protective orders related thereto are denied.

1. *Proper Situs for Deposing a Corporate Official*

Mr. Williams, who is presently chairman of the board of defendant Helena, resides in Billings, Montana. Although this lawsuit was filed in the Southern District of Texas, the defendant Helena does not have a principal place of business

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here in this District. Helena submits that only the proper locations in which to take the deposition of Mr. Williams are either at Helena's principal place of business in Memphis, Tennessee, or at the residence of Mr. Williams in Billings, Montana. Although defendant Helena is doing business in the Southern District of Texas, the Court agrees that the plaintiff should be required to choose between Mr. Williams' residence and defendant's principal place of business for taking a deposition. *Application of Johnson and Johnson,* 59 F.R.D. 174, 178 (D. Del. 1973); *Joseph F. Less* v. *Taber Inst. Corp.*, 53 F.R.D. 645, 646 (W.D.N.Y. 1970).

2. *Parties Deposable as Corporate Officials*

Mr. Blue was a past president of defendant Helena. He is no longer president or otherwise employed by Helena. The Court agrees with the defendant that Mr. Blue, who

is a resident of Houston, would be subject to a deposition as an individual, but only by subpoena. "A corporation may not be examined [by a deposition] through one who was formerly an officer thereof but is no longer in its employ." *Kolb* v. *Bull Steamship Co.*, 13 F.R.D., 252, 254 (E.D.N.Y. 1962). *See also* J. MOORE, FEDERAL PRACTICE, ¶ 30.51, n.10 (2d ed. 1975).

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Plaintiff's motion for partial summary judgment is denied. Defendants' motions for partial summary judgment are granted in part and denied in part. Defendants' motions for protective orders are denied with the exception of defendant Helena's motion to quash notices of deposition given to Jerry A. Williams and J. C. Blue, which is granted.

DONE at Houston, Texas, this 10th day of August, 1976.

Carl O. Bue, Jr.

United States District Judge

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FOOTNOTES

[1] *See also B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495, 498 (1942). Licenses to use the plaintiff's patented method of reinforcing shoe insoles were granted to plaintiff's customers who purchased a pre-coated fabric used in the method. The Supreme Court rejected the argument that this licensing method was the only practicable way to exploit the patent, holding that the plaintiff's attempt to establish a monopoly in an unpatented article constituted misuse of its patent. The Chief Justice indicated that if the plaintiff was willing to grant unconditional licenses to manufacturers on a royalty basis, reconsideration of its right to relief would be appropriate.

[2] *"Section 271. Infringement of patent.*

"(a) Except as otherwise provided in this title [§ 1 et seq. of this title], whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

"(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

"(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

"(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement."

[3] *E.g.*, J. Scafetta, *Ten Years After Aro II: The Effect of Patent Act § 271 on the Patent Misuse Doctrine*, 26 S. CAR. L. REV. 539, 548 (1975); C. Miller, *Some Views on the Law of Patent Infringement by Inducement*, 53 J. PAT. OFF. SOC'Y. 86, 95 (1971); *Note, Combination Patents: the Right to Prohibit Sales of Replacement Parts*, 70 Yale L.J. 649, 655 (1961); *Note, Contributory Infringement and Misuse — the Effect of Section 271 of the Patent Act of 1952*, 66 HARV. L. REV. 909, 914 (1953).

[4] Of the authorities cited in *note* 3, *supra*, the authors of Comment, 53 J. PAT. OFF. SOC'Y 86, 95-96 (1971); *Note*, 70 YALE L. J. 649 655 (1961); and *Note*, 66 HARV. L. REV. 909, 914 (1959), conclude that the enactment of § 271

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sought to eliminate the uncertainty created by Mr. Justice Douglas' dictum in *Mercoid*. *See also* A. Areeda, *Antitrust Analysis* ¶ 534(a), n.89 (2d ed. 1974).

[5] For example, in instances where a large number of consumers directly infringing a combination patent are supplied with components or otherwise aided by a small number of "accomplices", the most effective method to halt the infringement is to permit the patent owner to sue the "accomplices". *Cf.* D. Moseley, *The Knowledge Requirement of Contributory Infringement and the Aro Case*, 47 J. PAT. OFF. SOC'Y 98, 103 (1965).

[6] The first case to actually use the term "contributory infringement" was *Snyder* v. *Burnell*, 29 F. Cas. 47 (C.C. S.D.N.Y. 1886).

[7] Plaintiff, in arguing that § 271(d) expressly sanctions its licensing policies, maintains that "[i]n the event that at some future time a substantial commercial use for propanil should arise in this country which does not infringe the patent at bar, Rohm and Haas then would modify its licensing policy since the Section 271(d) exception would no longer apply". In its complaint plantiff charges defendants with actively inducing infringement, under § 271(b), as well as contributory infringement, under § 271(c). Throughout its memorandum filed in opposition to defendants' motion for partial summary judgment, plaintiff urges that its own conduct vis-a-vis patent misuse under § 271(d) should be sanctioned or condemned depending solely upon whether propanil is determined to be a staple or nonstaple article. Nowhere in the language of § 271(d) has Congress limited or otherwise defined patent misuse by reference to the staple or nonstaple nature of an unpatented component. For reasons set out in *Fromberg, Inc.* v. *Thornhill*, 315 F.2d 407, 414-415 note 20 (5th Cir. 1967), and Section III.B.2., *infra*, this Court has concluded that the nature of a component article of a patented combination is germane only to the definition of a contributory infringer under § 271(c); it should not confuse analysis of the patentee's conduct under § 271(d) for purposes of determining patent misuse *vel non*.

[8] *E. g.*, J. Scafetta, *Ten Years After Aro II: The Effect of Patent Act § 271 on the Patent Misuse Doctrine*, 26 S. CAR. L. REV. 539 (1975), reprinted in 58 J. PAT. OFF. SOC'Y 69 (1976) (hereinafter *Scafetta*); C. Miller, *Some Views on the Law of Patent Infringement by Inducement*, 53 J. PAT. OFF. SOC'Y 86, 94-97 (1971); *Note*, 70 YALE L. J. 649, 656-660 (1961); *Comment, Note*, 66 HARV. L. REV. 909 (1953).

[9] *Deep South Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 530 (1971); *Aro Mfg. Co., Inc.* v. *Convertible Top Replacement Co., Inc.*, 365 U.S. 336, 347, n.2 (1961) (Black, J., concurring). Mr. Crumpacker, a congressman who participated in the hearings as a member of the patent subcommittee of the House, is purported to have stated that:

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" . . . this colloquy is almost entirely meaningless, it being merely an exchange of pleasantries by some senators having little, if any familiarity with the subject matter they were discussing.[21] [21 . . . . Any senator or representative who got as far as reading the title of the bill would see it was a bill to *revise* and codify the laws.]"

J. Scafetta, note 8, *supra* at 558. While the Court agrees that little weight should be accorded to this colloquy between senators on the floor, great weight must be accorded to the presumption that, inciting this exchange on at least two occasions, the Supreme Court has concluded that the result in *Mercoid* has not been overruled.

The Court has closely studied the Scafetta article, note 8, *supra*, for two reasons. First, it is the most recent as well as the most comprehensive commentary published on the doctrine of patent misuse. Second, it has been graced by the Robert C. Watson Award for 1975 from the American Patent Law Association for the best publication prepared by an author, while a student, on a "subject of primary importance to the patent system". *See* 58 J. PAT. OFF. SOC'Y, 69 (1976). The collision in this case of the policies underpinning the patent laws and the antitrust laws is graphically illuminated by Scafetta's assault on the views of the Justice Department and the American Bar Association Section on Antitrust Law, which coincide with this Court's finding of patent misuse. Scafetta, *supra* at 589. *See* ABA ANTITRUST SECTION 339-41 (1975).

Based primarily on his interpretation of the Supreme Court's opinion in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476 (1964), Mr. Scafetta concluded in his article that the enactment of § 271 effectively overruled the result as well as the broad dictum in the *Mercoid* decisions. For reasons set out in Section III.C., *infra*, this Court disagrees. Moreover, the exploitation pursued in the present case transcends the conduct which confronted the Supreme Court in *Mercoid*. Section III.A., *supra*.

[10] Mr. Rich also stated before the committee that it was his opinion that § 271 covered "the *Mercoid* type of situation", Hearings, *supra* at 174, which tends to support the conclusion that the result in *Mercoid* would be changed by § 271(d). This Court has determined that § 271(d) sanctions the conduct of a patent owner only if the three provisions of this paragraph comprehensively define that conduct. Any conduct of patent exploitation which falls outside of § 271(d) requires the Court to determine whether the judicial doctrine of patent misuse is appropriate. Mr. Rich's construction of § 271(d) to senators prior to its enactment supports this analysis. For reasons set out in the following paragraphs, the Court has concluded that the plaintiff in this case has exploited its method patent in a manner exceeding the acts specifically set out in § 271(d). Moreover, a settled public policy against extending patents to

unpatented articles should not be overridden by the general terms of a statute which do not establish with certainty a legislative intent to depart from that policy. *See United States* v. *Sweet*, 245 U.S. 563, 572 (1918). *See also Deep South Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1971).

[11] Of course, if defendants were licensed by plaintiff to label containers of propanil with instructions setting out plaintiff's patent, as are plaintiff's propanil customers, defendants would not be contributory infringers.

[12] *E.g., Deepsouth Packing* v. *Laitram*, 406 U.S. 518, 528 (1972); *Blonder-Tongue* v. *University Foundation*, 402 U.S. 313, 343-44 (1970); *Fromberg, Inc.* v. *Thornhill*, 315 F.2d 407, 412 (5th Cir. 1963) ("[The effort to] extend [the patent monopoly] to unpatented materials which are used in, or consumed by, the patented machine, process or device . . . constitutes patent misuse"). *Cf.* M. Nelson, *Mercoid-Type Misuse is Alive*, 56 J. PAT. OFF. SOC'Y 134 passim (1974).

[13] The context of this statement in the *Aro II* opinion is somewhat confusing; in the midst of a discussion of the elements of contributory infringement, the Court digresses briefly to touch on an element of patent misuse. It is clear from this passage, however, that the Supreme Court in *Aro II* did not interpret § 271 to overrule the result in the *Mercoid* decisions.

[14] ". . . [W]e find the Fifth Circuit's definition unacceptable because it collides head on with a line of decisions so firmly embedded in our patent law as to be unassailable absent a congressional recasting of the statute.

"We cannot endorse the view that the 'substantial manufacture of the constituent parts of [a] machine' constitutes direct infringement when we have so often held that a combination patent protects only against the operable assembly of the whole and not the manufacture of its parts. 'For as we pointed out in *Mercoid* v. *Mid-Continent Investment Co.*, [320 U.S. 661, 676] a patent on a combination is a patent on the assembled or functioning whole, not on the separate parts.' *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 684 (1944). *See also Leeds & Catlin Co.* v. *Victor Talking Machine Co.*, 213 U.S. 301:

> 'A combination is a union of elements, which may be partly old and partly new, or wholly old or wholly new. But whether new or old, the combination is a means — an invention — distinct from them.' *Id.* at 318.

> " '[O]ne element is not the combination. Indeed, all of the elements are not. To be that — to be identical with the invention of the combination — they must be united by the same operative law,' *Id.* at 320.

And *see Brown* v. *Guild*, 23 Wall. 181 (1874). In sum,

> '[i]f anything is settled in the patent law, it is that the combination patent covers only the totality of the elements in the claim and that no element, separately viewed, is within the grant.' *Oro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. at 344."

406 U.S. at 528.

[15] The Supreme Court in *Blonder-Tongue* quoted the following passage from *Mercoid I*, *supra*, 320 U.S. at 666:

> " 'The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly. The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use.' " 402 U.S. at 343-344.

[16] It should be noted, however, that plaintiff's heavy reliance on *Aro II* suffers from the same infirmity.

[17] "These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles." *United States* v. *Loew's, Inc.*, 371 U.S. 38, 46 (1962).

"Among other restrictions on him, he [the patentee] may not condition the right to use his patent on the licensed's agreement to purchase, use, or sell, or not to purchase, use or sell, another article of commerce not within the scope of his patent monopoly." *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969).

[18] ". . . [O]ne must begin with the rule that a patent protects only the [patented] machine in its totality and not its individual unassembled elements. . . . The purpose behind the *Brown, Aro, Mercoid* rule is to prevent the patentee from exercising exclusive control over the constituent elements of his patented machine. The public has a right to these elements. . . ." *Laitram Corp.* v. *Deep South Packing Co., Inc.*, 443 F.2d 936 (5th Cir. 1971), *rev'd on other grounds*, 406 U.S. 318 (1971).

[19] *Ansul Co.* v. *Uniroyal, Inc.*, 306 F. Supp. 541 (S.D.N.Y. 1969), *aff'd* 448 F.2d 872 (2nd Cir. 1971), *cert. denied*, 404 U.S. 1018 (1972); *National Foam System* v. *Urquhart*, 202 F.2d 659 (3d Cir. 1953).

[20] As the Court noted in Section III.A.3., *supra*, plaintiff with its licensing policy attempts to exploit the Wilson patent in a manner not wholly analogous to the efforts of the patent owner in *Mercoid*. Also, it is not entirely clear to what extent the Supreme Court in arriving at its conclusions in *Mercoid* scrutinized the reasonableness of the patent owner's licensing efforts. The Court has determined that the enactment of § 271 does not now permit a patent owner to monopolize the sale of unpatented articles, whether they are nonstaple components or otherwise. The effect of this order compels the patent owner marketing unpatented, nonstaple components of his combination patent to first offer licenses to others marketing that component before it seeks equitable relief for contributory infringement. Although the act of bringing the suit is expressly sanctioned by § 271(d)(3), and therefore cannot serve as the basis for a finding of patent misuse, it does not follow that every patent owner who brings a suit for infringement is thereby immunized against this defense. Rather, the patent owner's acts antecedent to the filing of the suit constitute the basis for a finding of patent misuse *vel non*.

It would be premature for this Court to now consider reasonable royalty rates or the number of offers necessary in order to dissipate the misuse arising from attempts to monopolize the sale of propanil. It is sufficient in this interlocutory order to conclude simply that § 271 does not legitimize the monopoly.

[21] "Such a decree should, of course, be so framed as that it will not permit an unreformed and unrepentant plaintiff to obtain the fruits of bringing a defendant to book for his wrong doing, unless and until proper amends are made by plaintiff for his own wrong doing. Equally, of course [the Court should not countenance] a defendant's wrong doing in deliberately stealing the fruits of plaintiff's invention by permitting him, by the simple device of the pot calling the kettle black, to continue to escape accountability. In short, the decree should, if at all possible, be so drawn as to protect the public from the continuing wrong doing of the plaintiff in misusing its patents and the plaintiff and the public from the continuing wrong doing of defendant in deliberately pirating plaintiff's invention." 186 F.2d at 369.

* * * *

IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS CO.

Plaintiff,

v.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, AND HELENA CHEMICAL COMPANY

Defendants.

James C. Winters, Crain, Winters, Deaton, James & Briggs, Houston, Texas, for plaintiff.

John L. McConn, Jr., Butler, Binion, Rice, Cook & Knapp, Houston, Texas, for defendants Dawson Chemical Co., Crystal Manufacturing Corp. and Crystal Chemical Co.

B. R. Pravel, Pravel and Wilson, Houston, Texas, for defendant Helena Chemical Co.

MEMORANDUM AND ORDER

I. INTRODUCTION

This is a suit for patent infringement of a patent owned by plaintiff Rohm and Haas Company. The suit was filed on the day the patent was issued, June 11, 1974, and the parties thereafter entered into a stipulation of the facts in the hope of presenting to the Court for summary judg-

ment a clear-cut question of law. On November 11, 1974, defendants moved for partial summary judgment on the ground that the stipulated facts established patent misuse as a matter of law. The Court in its Memorandum and Opinion of August 10, 1976, found as a matter of law that plaintiff had in the past misused and continued to misuse its patent and therefore

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granted summary judgment as to the defense of misuse. Despite the finding of misuse, the Court at that time declined to dismiss the action.

II. PENDING MOTIONS

Defendants now urge the Court by way of motions to reconsider its decision not to dismiss plaintiff's complaint. In the alternative, defendants seek an order for immediate appeal under 28 U.S.C. § 1292(b). Defendants Dawson Chemical Company, Crystal Manufacturing Company and Crystal Chemical Company have joined in one such motion. Defendant Helena Chemical Company has submitted a separate motion. In view of the substantial likeness of these motions, they will be treated together by the Court for purposes of this opinion. Helena Chemical Company has also filed a motion for stay of depositions until this Court has resolved the pending motions for reconsideration. Plaintiff opposes the motions for reconsideration of the refusal to dismiss, but joins defendant Helena Chemical Company by way of cross-motion in requesting an order permitting an immediate appeal under 28 U.S.C. § 1292(b). Based upon the reasons and analysis that follow, defendants' motion to reconsider is granted, and the case is dismissed. All other motions are denied as moot.

III. THE APPLICABLE CASE LAW

A. Defendants' Contentions

Defendants urge that in view of the Court's previous finding of misuse in its opinion of August 10, 1976, the Court is now required to dismiss plaintiff's action for infringement.

1. *Morton Salt Co.* v. *G. S. Suppiger Co.*

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Defendants contend that dismissal is required under the holdings in *Morton Salt Co.* v. *G. S. Suppiger Co.* 314 U.S. 488, 86 L.Ed. 363 (1942) (hereinafter *Morton Salt*), and *B. B. Chemical Co.* v. *Ellis,* 314 U.S. 495, 86 L.Ed. 367 (1942) (hereinafter *B. B. Chemical*), which are the leading cases in this area of the law.

In *Morton Salt, supra,* the G. S. Suppiger Company held a patent on a machine for depositing salt tablets, a device used in the canning industry to add predetermined amounts of salt in tablet form to the contents of cans. The G. S. Suppiger Company leased these patented machines to commerical canners under licenses that specified that only the subsidiary's salt tablets could be used with the leased machines. The Supreme Court agreed with the trial court that the company in so doing was making use of the patent to restrain competition in the marketing of unpatented articles and was creating a limited monopoly in salt tablets that was not within the monopoly granted by the patent. *Morton Salt, supra,* 314 U.S. at 491, 86 L.Ed. at 365. The trial court, after its finding of misuse, dismissed the cause without resolving the remaining issues of validity and infringement. The Supreme Court held the maintenance of a suit under such circumstances was contrary to public policy and that the district court had rightly dismissed

for want of equity. 314 U.S. at 494, 86 L.Ed. at 367. The Court's reasoning in approving such dismissal was expressed thus:

> "Where the patent is used as a means of restraining competition with the patentee's sale of an unpatened product, the successful prosecution of an infringement suit . . . is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent . . . Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is

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> "made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated."

Morton Salt, 314 U.S. at 493, L.Ed. at 366. *Morton Salt* thus makes it clear that where misuse of a patent is found to exist, equitable and public policy considerations dictate the withholding of relief while such misuse continues extant.

2. *B. B. Chemical Co.* v. *Ellis*

The companion case to *Morton Salt, supra,* is *B. B. Chemical Co. v. Ellis,* 314 U.S. 495, 86 L.Ed. 367 (1942), decided the same day. Petitioner in that case was the owner of a method patent for reinforcing insoles in shoe manufacture. Petitioner sought an injunction prohibiting infringement, alleging that the acts of infringement amounted to active inducement of infringement by the shoe manufacturers and to cooperation with their infringing acts. Respondents set up as a defense petitioner's misuse of the patent by permitting its use only with the unpatented ma-

terials sold by petitioner. The Supreme Court affirmed the district court's dismissal, saying:

> "[I]n view of petitioner's use of the patent as the means of establishing a limited monopoly in its unpatented materials, and for the reasons given in our opinion in the Morton Salt Co. case, we hold that the maintenance of this suit to restrain *any form of infringement* is contrary to public policy, and that the district court rightly dismissed it." (emphasis added)

Id. at 497-98. The result in *B. B. Chemical* thus indicates that the type of infringement alleged, whether contributory infringement or active inducement of infringement, is of no consequence where misuse exists. So long as there is an existing patent misuse, the courts will withhold relief on claims of infringement, regardless of the type of infringement alleged. Thus, under *B. B. Chemical,* plaintiff's allegation

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of active inducement of infringement by defendants will have no effect in the context of deciding whether dismissal is appropriate in the instant case.

3. *Gray Tool Co.* v. *Humble Oil & Refining Co.*

Defendants contend that the case of *Gray Tool Co.* v. *Humble Oil & Refining Co.,* 186 F.2d 365 (5th Cir. 1951) is distinguishable from the instant case and from the decision of the Supreme Court in *Morton Salt Co., supra,* and *B. B. Chemical Co., supra.* (Memorandum in Support of Defendant's Motion for Reconsideration of the Court's Decision Not to Dismiss Plaintiff's Complaint, p. 3). The Court is in agreement. A careful reading of the *Gray* case discloses a different situation from that existing in the instant case. In *Gray,* the district court in an action for patent

infringement made a finding of patent misuse and dismissed the action on summary judgment. On appeal the Fifth Circuit found that the record did not support the district court's conclusion that the defense of misuse had been established as a matter of law. The Court of Appeals said (p. 367):

> "Nothing in the pleadings, in the evidence given, or in the admissions made by plaintiff, established as matter of law that it was misusing its patents in an attempt to obtain a monopoly in violation of the applicable rule."

In essence, the Court of Appeals in *Gray* overturned the district court's finding of misuse.[1] Because the misuse finding was rejected in *Gray,* the *Gray* court's refusal to dismiss in no way conflicts with the decisions of the Supreme Court in *Morton Salt, supra,* and *B. B. Chemical, supra,* both of which decisions were made in light of findings of misuse. Thus the holding in *Gray* in no way diminishes or modifies the effect of the holdings in *Morton Salt* and *B. B. Chemical* on the present case.

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B. Plaintiff's Contentions

Plaintiff urges that it be allowed to litigate the remaining issues of validity and infringement in this case, despite the finding of misuse. In so urging plaintiff cites to the Court several cases which plaintiff contends entitle it to maintain its action for validity and infringement. The authorities so cited are reviewed below.

1. *W. L. Gore & Associates* v. *Carlisle Corp.*

In the case of *W. L. Gore & Associates, Inc.* v. *Carlisle Corp.,* 381 F. Supp. 680 (D. Del. 1974), the plaintiff was the owner of a patent relating to the manufacture of a flat multiconductor ribbon cable used to transmit electrical signals. The court there found that plaintiff's attempted reciprocal dealing in relation to the patent constituted patent misuse. *Id.* at 706. However, the court then found that plaintiff's unlawful conduct had ended no later than January 8, 1973, when all pending license offers were withdrawn. Thus, the misuse had ceased over a year and a half before the court rendered its decision on September 9, 1974. The court found one of the patents at issue to be valid and infringed, and concluded that the plaintiff was entitled to an injunction prohibiting further infringement, despite the initial finding of misuse.

The Court articulated its reasoning as follows:

> "The considerations for remedying the patent misuse here are somewhat different. A finding that a patent owner has misused its patent does not operate to invalidate the patent, and full rights to enforce a patent that has been misused may be reinstated when it can be shown 'that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated.' Morton Salt Co. v. Suppiger, supra at 492-493, 62 S.Ct. at 405. Plainly, plaintiff abandoned its improper practice by January 8, 1973."

Id. at 706. Having found the misuse purged, the court then

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went on to apply the exhortation of *Gray, supra,* which urges that in devising a remedy for patent misuse, a court should take pains neither to reward the plaintiff for its misuse nor to put a premium on the defendant's wrongdoing. *Id.* at 706. It is to be noted that the *Gray* case came into play only subsequent to the court's finding that the misuse had been purged.

2. *Morrill* v. *Automatic Industries, Inc.*

In *Morrill* v. *Automatic Industries, Inc.*, 93 F. Supp. 697 (W.D. Mo. 1950), plaintiffs brought suit against Automatic Industries, Inc., for infringement of a patent for a rotary side delivery rake, used for raking cut hay and other grasses into windrows. The court found that plaintiffs' patent was valid, and that the patent had been infringed by the defendant. Automatic Industries defended on the ground that plaintiff had so misused their patent rights as to have disqualified themselves from seeking equitable relief on the patents. The court found that the claimed misuse had been purged January 1, 1950, some nine months before the court rendered its opinion, and held plaintiff entitled to recover damages for infringement. The manner in which the alleged misuse was purged is described by the court at page 712:

> "Before closing the evidence herein, plaintiffs introduced in evidence documents revealing a modification of the above Crowe license, effective as of January 1, 1950, and deleting therefrom all matters which defendant contends establishes said license agreement as being against public policy and a misuse of patent rights. As so modified, said license agreement is no longer subject to the contention defendant makes against the provisions of the original Crowe license."

The court specifically found the holding in *Morton Salt* inapplicable, but this finding was made only after the court

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had previously held that the patent misuse had been purged as described in the passage quoted above.

3. *Sylvania Industrial Corporation* v. *Visking Corporation*

In *Sylvania Industrial Corporation* v. *Visking Corporation*, 132 F.2d 947 (4th Cir. 1943), the controversy centered on four patents of the Visking Corporation which related to artificial sausage casings. On April 3, 1941, the patents were found valid and infringed, but the district court initially denied relief to the plaintiff patent owner on the ground that plaintiff had attempted by its method of doing business and by improper use of the patents to secure a limited monopoly in unprinted regenerated cellulose sausage casing, an unpatented material. In subsequent supplemental proceedings the plaintiff offered evidence that satisfied the district court judge that it had purged itself of its illegal conduct. Therefore, on March 13, 1942, the district court filed an interlocutory decree holding that the plaintiff had by May 12, 1941, purged itself of misuse, and holding further that the plaintiff was entitled to an injunction against future infringement and an accounting from that date for past infringement. Once again, relief was granted on the patent only after a showing that the misuse had been purged.

IV. CONCLUSIONS BASED ON APPLICABLE CASE LAW

There is one feature that stands out quite clearly in all of the cases urged by plaintiff as supporting the theory that plaintiff is entitled to pursue its cause of action despite the finding of misuse. This feature is that in all three cases cited by plaintiff and analyzed above (III.B.), the party as to whom a finding of misuse had been made was allowed to pursue relief only after the court found the

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misuse purged. Equally clear are the holdings of the Supreme Court in *Morton Salt* and *B. B. Chemical* which

stand for the proposition that where misuse is found to exist and remains unpurged, a court will deny relief to the party guilty of misuse, and that dismissal of the cause in such instance is proper.

However, the Court cannot agree with defendants that dismissal is required. The net effect of the caselaw set forth by the parties on this topic is, in the opinion of the Court, to make dismissal legally proper, but not required where some alternative route will have the effect of denying the misusing party relief on the patent and, at the same time, offer some advantage in the form of judicial efficiency or justice to the parties. One possible alternative of this sort would be a stay of the case following a finding of unpurged misuse. Such a stay would normally include a moratorium on discovery so as to deny the misusing party relief. While the parties have not cited, nor is the Court aware of, any cases in which dismissal did not follow a finding of unpurged misuse, the Court believes that the use of such a remedy, where it accomplishes the purposes expressed in *Morton Salt, supra,* is in keeping with the traditionally flexible nature of equitable remedies.

V. FACTORS IN COURT'S DECISION TO DISMISS RATHER THAN TO STAY THIS ACTION

The Court, after careful consideration of the applicable caselaw, the briefs of counsel and the facts of this case, has opted to dismiss this action rather than stay it. Several factors entered into the Court's thinking in arriving at this result. First, there has been no attempt by the plaintiff to show that it has purged or will purge itself of its misuse of the patent. On the contrary, plaintiff

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has steadfastly refused to issue licenses or take any action which this Court might interpret as an attempt to purge.

Thus, there can be no motive to stay based upon a purge of misuse being either in process or imminent. Secondly, any damages to plaintiff are merely speculative at this point since damages for infringement are not available during a period of misuse. *Sylvania Industrial Corp.* v. *Visking, supra* at 957. It is clear that improper use does not invalidate a patent, and that if a patent owner purges himself of the misuse he may then enforce his patent and recover damages for infringement occurring thereafter. *Novadel-Agene Corp.* v. *Penn,* 119 F.2d 764, 766-67 (5th Cir. 1941). However, in the case at bar, any purge is likely to involve the issuance of licenses to defendants, thus precluding the possibility of further infringement since defendants would then be using the patents in accordance with the license. Even assuming that plaintiff after purging itself of misuse could assert a claim to relief, plaintiff will not by the dismissal be left without remedy, since plaintiff may after pudging itself of misuse come in and re-file. *Novadel-Agene Corp.* v. *Penn, supra.*

Third, both parties have clearly indicated to the Court their wish and intent to appeal this case. Both parties have submitted motions requesting the Court to certify the case for appeal; under 28 U.S.C. § 1292(b), which governs appeal of interlocutory matters. One of the requirements for certification under section 1292(b) is that an immediate appeal may materally advance the ultimate termination of the litigation. Both plaintiff and one of the defendants have in the course of urging this Court to certify under section 1292(b) represented to this Court that a holding by the Fifth Circuit Court of Appeals on the question of misuse is

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likely to dispose of this case either entirely or almost entirely, whether the Court of Appeals affirms or reverses the

holding of this Court. (*See* Plaintiff's Memorandum, filed September 17, 1976, p. 3; Memorandum of Defendant Helena Chemical Co., filed September 13, 1976, p. 5). Assuming these representations to be correct, there would seem to be no advantage in staying the case. Additionally, dismissal of the complaint will allow plaintiff to proceed immediately with a direct appeal in this case, rather than forcing plaintiff to attempt to bring itself within the purview of section 1292(b) in order to obtain review of this Court's unfavorable (to plaintiff) ruling on the issue of misuse. The totality of the foregoing factors in combination with the applicable caselaw lead this Court to conclude that the interests of justice and of judicial efficiency are better served by a dismissal, rather than by a stay of proceedings, in this case.

V. CONCLUSION

For the foregoing reason, defendants' motion for reconsideration of the Court's decision not to dismiss plaintiff's complaint is granted; and plaintiff's cause of action should be, and it hereby is, dismissed. Such dismissal is without prejudice to plaintiff's right to re-file upon sufficient showing that it has purged its misuse.

All other pending motions are denied as moot in view of the dismissal.

In regard to this Court's Memorandum and Opinion of August 10, 1976, the portion of that Opinion, V.B., in which

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this Court declined to dismiss is hereby withdrawn, and the instant discussion and ruling are substituted therefor.

DONE at Houston, Texas, this 23rd day of November 1976.

/s/ Carl O. Bue, Jr.
Carl O. Bue, Jr.
United States District Judge

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FOOTNOTE

[1] The Court now notes that the circumstances surrounding the finding of misuse by the district court in *Gray* were in significant contrast to the circumstances in the instant case. Here the parties have agreed that there are sufficient facts upon which to render a summary judgment and have stipulated to those facts for the avowed purpose of enabling this Court to render a decision as a matter of law on the issue of misuse. (Plaintiff's Memorandum, filed September 17, 1976, p. 1). It was in response to these activities of the parties that this Court's order of partial summary judgment on the issue of misuse was entered on August 10, 1976.

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PATENT LAW CODIFICATION AND REVISION

AFTERNOON SESSION

The committee reconvened at 2 p.m. at the expiration of the recess.

Mr. BRYSON. Come to order, please.

Captain Robillard, will you come forward, please?

STATEMENT OF CAPT. GEORGE N. ROBILLARD, UNITED STATES NAVY, APPEARING FOR THE DEPARTMENT OF DEFENSE

Captain ROBILLARD. Mr. Chairman, I only want to take about a half minute. Yesterday I discussed the eight suggestions the Department of Defense had to make, but I failed to note in the record that we otherwise approve the bill.

Mr. BRYSON. Thank you so much. When you say "we" whom do you mean?

Captain ROBILLARD. The Department of Defense approves the bill.

Mr. BRYSON. You speak for all three of the branches?

Captain ROBILLARD. I am representing the Department of Defense — the Army, Navy, and Air Force.

Mr. BRYSON. We are glad to see that they finally are coordinating.

Captain ROBILLARD. It happens occasionally.

Mr. BRYSON. Mr. Rich, we spoke to you informally before the noon hour. Will you come forward, please, and identify yourself for the record? Give your name and in what capacity you appear.

STATEMENT OF GILES S. RICH, ESQ., NEW YORK, N. Y.

Mr. RICH. Mr. Chairman, my name is Giles S. Rich and I am from New York. I am a practicing patent lawyer and have been in practice for 21 years. I appear here as a member of the advisory committee of the Coordinating Committee of which Mr. Ashton spoke in his testimony.

As you will recall he also stated that I am and have been a member of the drafting committee which assisted in the preparation of the suggestions which the Coordinating Committee submitted to the counsel for your committee.

Mr. BRYSON. Do you have a prepared statement?

Mr. RICH. I do not have any prepared statement.

Mr. BRYSON. All right, sir; you may proceed.

Mr. RICH. I have been asked to address my remarks to section 231, which is the infringement section of this bill. I should perhaps explain why I should be selected to deal with this particular part of the bill. I am, of course, very familiar, due to my activities on the Coordinating Committee, with the very great amount of work which has gone into the entire bill on the part of the committee counsel and the Coordinating Committee and all of the associations which worked independently and sent the fruits of their labors to the Coordinating Committee.

I also know, of course, how the labors of the Coordinating Committee commenced on the basis of your committee print which was prepared after studies of all the legislative proposals of the past 25 years.

The infringement section, however, has perhaps received even more consideration than any other part of the bill. As Mr. McCabe pointed

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out to you this morning, much of section 231 is based upon

two prior bills which were considered in two previous Congresses — H. R. 5988 of the Eightieth Congress and H. R. 3866 of the Eighty-first Congress. Those bills dealt specifically with a subject which your reporter has recorded in reporting the testimony of these hearings as contributory fringe.

Mr. BRYSON. With the fringe on top.

Mr. RICH. I can also recall having made a valiant effort to explain in previous hearings on one of those bills what the difference was between contributory infringement and contributory negligence. Somebody wanted to know who contributed to what. So perhaps I should state at the outset that wherever there is contributory infringement there is somewhere something called direct infringement, and to that direct infringement someone has contributed. It is a very different thing from a concept like contributory negligence. And it is an old doctrine that has been in the law for some eighty-odd years.

In 1897 in a well-known case, *Thompson-Houston Electric* v. *Ohio Brass* (80 Fed. 712), the then Judge Taft said of this doctrine:

> If this healthful rule is not to apply to trespass upon patent property, then indeed the protection which is promised by the constitution and laws of the United States to inventors is a poor sham. Many of the most valuable patents are combinations of non-patentable elements and the only effective mode of preventing infringement is by suits against those who, by furnishing the parts which distinguish the combination, make it possible for others to assemble and use the combination and who, by advertisement of the sale of such parts and otherwise, intentionally solicit and promote such invasions on the patentee's rights.

Now, Judge Taft was on very sound ground in making those statements.

Mr. BRYSON. That was Judge William H. Taft?

Mr. RICH. Who was subsequently President of the United States.

Mr. BRYSON. Was he Chief Justice then?

Mr. RICH. At that time he was on the Circuit Court of Appeals, I believe of the Sixth Circuit.

Mr. BRYSON. We frequently hear his name, or the family name, mentioned here on Capitol Hill now.

Mr. RICH. Coming specifically to 231, which I have called the infringement section, it seems to me that this is a codification of the finest kind. It does not deal exclusively with contributory infringement, but with the whole subject of infringement which is a logical part of any codification of the patent laws. You will observe that it begins with section (a) in which infringement generally is for the first time set forth in any patent statute. The laws that we have now say nothing whatever on the subject of infringement. They simply create a right and leave it to the courts to enforce it. But section (a) deals specifically with the matter and says what shall be infringement. That, of course, is direct infringement, which is the making, using, or selling of the patented invention without permission.

Then if you go over to section 241, in the next subsection of this bill, you will find it states what remedy the patentee shall have in case of infringement. So it is a very neat and logical arrangement.

Now, the origins of the rest of 231 are to be found in these two previous bills which I mentioned. And I will not go into great detail about them, because the hearings were published, and I presume it was because I testified at some length on both of those bills that I was

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asked to deal with the subject here today. Paragraph (b), (c), and (d) can be compared with the old bills in this fashion: Paragraph (b) of H. R. 3760 comes from the first section of the old bills, which had no number, and provides

that any person who shall actively induce infringement of a patent shall be liable as an infringer.

In the old bills section 2 was purely introductory, and then we had sections 3 and 4. Now, those sections have been very neatly combined by your own committee counsel into the single section (c) of the present bill. We previously had a positive statement coupled with negative statement looking at the opposite side of the situation, and your counsel felt that that was an unnecessary thing to do. You could just as well say what it was and be done with it. And it has turned out very nicely.

Section (d) comes from section 5 of the old bills and deals with a topic which has come to be known in the patent law as the misuse doctrine, and I will have something to say about that in a moment.

I would like to say why I think this is codification of the finest kind. We do have in the law the doctrine of contributory infringement at the moment. In the last case in the Supreme Court, by which some people think the doctrine was abolished, it was actually specifically recognized by the Court. Only they said they couldn't apply it.

On the other hand, we have the conflicting doctrine called the misuse doctrine, and we have to deal with both of them if we are to tackle the problem at all.

In the cases known as the Mercoid cases the doctrine was to a large extent upset and rendered obscure. In the course of testimony on these previous bills it became unquestionably clear that there was a great deal of disagreement about the state of the law. How much contributory infringement do we have? Do we have any? The very decisions out of which this confusion arose, the Mercoid cases, show that there is confusion because the Mercoid case was decided by a divided Court in a five to four opinion, and the Court

managed to render five separate opinions. There was one majority opinion by Mr. Justice Douglas in which Justices Stone and Rutledge concurred. There was a separate concurring opinion by Justices Black and Murphy and there were three separate dissenting opinions, the first by Justices Roberts and Reed, the second by Justice Frankfurter, and the third by Justice Jackson.

That opinion itself left things in a rather confused state.

Now, it was not an easy task for even the experienced members of the patent bar to take this situation and try to clarify it and codify it because the courts had not laid down any clear-cut line. That is the problem with which we wrestled. What we have been trying to do all along is to pick a sensible line in accordance with public policy as it seems to exist today, and to make it as clear as we possibly can. And that I think we have done within the limits of the English language. You cannot deal with situations which are, of necessity, going to vary and make language so clear that it is beyond any interpreting at all. That is what we have courts for.

But I think with all the work that has been done in the course of these 4 years since the introduction of the first bill on contributory infringement, that we have come up with a solution which suits practically everybody.

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Now, I do not want you to get the impression that this is a controversial matter. I think the fact that at the last Coordinating Committee there was practically no controversy at all should carry a lot of weight. There was much discussion about a couple of changes of language. I don't think there is any question whatever about the desirability of dealing with this subject, and trying to clarify it, because nobody could say that they do not want the law

made as clear as possible except those elements of society whose interests it is to keep things in a state of confusion.

Now, as to our solution, I think that if anything, it is on the ultra conservative side. This language has grown over the course of 4 years into a condition which has met with almost unanimous approval by the patent bar. It has taken a good deal of educating, it is a difficult concept to come to grips with. They call patent law the metaphysics of the law, and I would say that this contributory infringement business is the metaphysics of patent law. That is one reason I do not intend to go into it here today.

Mr. BRYSON. So it is the metaphysics of the metaphysics.

Mr. RICH. It is the meta metaphysics, beyond the beyond, you might say.

Mr. CRUMPACKER. Mr. Chairman?

Mr. BRYSON. Yes, sir.

Mr. CRUMPACKER. We have received protests from manufacturers of replacement parts for such things as automobiles, farm tractors, and the like, who evidently feel that the language used in this H. R. 3760 would make them contributory infringers of patents on the original article, the tractor or something of that sort.

Would you care to state your views on that subject, Mr. Rich?

Mr. RICH. Those were the most vociferous objectors to the old bills on the subject. Whether or not they would be liable would depend on the facts in each particular case. And I think that the best way to clear that up is to take up section (c) and deal with the matter specifically and point out to you the limitations that are there, which have to be met before anybody is held liable, and then leave it to you to decide whether a parts supplier should be held

liable or not, depending on the kind of a part he may be supplying.

If the part he is supplying is in substance the very thing which was invented, it seems to me personally, that he is an infringer, and he should not be let off on some little technicality that there is something minor in the whole apparatus that he is not supplying.

Mr. CRUMPACKER. Now, to take specific examples, I presume that an automobile, a complete automobile, is not now and has not been for a good many years subject to a patent, although there may be some component parts which are covered by patents.

Mr. RICH. That is correct.

Mr. CRUMPACKER. Now, say you manufacture something like a crankshaft or a king pin or a spindle or spring or some item like that, for an automobile which in itself is not patentable, and the item itself is also unpatentable. How could there by any infringement of a patent? That is something I do not understand.

Mr. RICH. I don't either, because if the item itself is not patentable ——.

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Mr. CRUMPACKER. If neither the component part or the machine it goes into is patentable, I do not see where there could be infringement.

Mr. RICH. Neither do I.

May I read section 231 (c):

> Whoever knowingly sells a component of a patented machine, manufacture, combination or composition, or a material or an apparatus for use in practicing a patented process —

and note the next phrase—

constituting a material part of the invention —

that means part of the inventive contribution that the patentee made, something new that did not exist before that came from him, and that is an important limitation which is in here which was not in the old bills—

especially made or especially adapted for use in an infringement of such patent —

another prerequisite—

and not a staple article or commodity of commerce suitable for substantial noninfringing use shall be liable as a contributory infringer.

I think that you would agree with me that just from the reading of that it is evident that that is an exceedingly restrictive provision.

Mr. CRUMPACKER. Could you cite me some specific example of what would be a violation of that?

Mr. RICH. Yes. With great pleasure I would like to give you what I believe is the latest case on this whole subject, for which I am indebted to our colleagues in Chicago. This is an oral opinion by Judge Barnes handed down on the 28th of May of this year in the case of Amalgamated Dental Co. against the William Getz Corp. in the United States District Court of Illinois, Eastern Division.

The patent involved in this litigation is No. 2,249,694, and it is for material for taking dental impressions.

Now, just let me explain generally what this patentee invented. You have all had the unpleasant experience of getting impressions taken with hot wax which makes your mouth burn, and with plaster of Paris which has to be knocked to pieces to be removed, and this patentee decided that he would produce a material which would set without either heating or cooling, and which would be elastic so that it could be removed without pain. And he succeeded in doing so, and apparently this is now a successful business

The invention is claimed in two different ways: It is claimed as a method and it is claimed as a material. The court in its opinion talks mostly about the method, but from a brief quotation from the opinion you will clearly gather the nature of the invention.

Or, perhaps it would be more clearly set forth if I read you one claim to the method:

Claim 1 of the patent says:

Method of forming a material for taking impressions which comprises mixing calcium sulphate with an aqueous solution of an alginate to form a stiff elastic gel.

Note the words "aqueous solution."

Mr. BRYSON. That is very plain.

Mr. RICH. In this method there is water involved, and likewise with the material claims an aqueous solution is called for. Other chemicals apparently could be added to this mixture which these

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claims I read describe in the simplest form, and you will see them mention in the opinion which says as to the defendant's contention:

Now, here it is said that the method set forth in the patent in suit involves the use of water; that the plaintiffs, owning the patent, sell, generally speaking, sodium alginate, sodium carbonate, calcium carbonate and anhydrous calcium sulphate, or their equivalents and thereby grant licenses to —

I assume that is it—

thereby grant licenses to dentists to use the method of the patent, which involves the use not only of those four chemicals sold, but also water, and thereby the plaintiffs are misusing the patent since they do not sell water — they are selling an unpatented article.

This is a fine contention under the Mercoid case. I would make it myself if given an opportunity. Anything recited in a patent claim which is omitted avoids infringement. That is a very old and well-established rule. And these

claims include water in the expression "aqueous" and the omission of the water avoids infringement, at least direct infringement, and you have to rely on the doctrine of contributory infringement, although this case does not mention it by name.

Judge Barnes says:

I decided the Mercoid case in the district court and I held the patent was misused there, and I decided the so-called Lecithin case, and that was another misuse case, and I held misuse there, and I am not unfamiliar with these doctrines —

but when he comes to this case, he says,—and this shows you the trouble the courts are having today:

Now, I do not see the wrong in this case which I saw very clearly in the Mercoid case, and likewise saw very clearly in the Lecithin case.

And now for the students of jurisprudence he says:

And since I do not see the wrong, of necessity, it is presented to me to find out some reason why I do not see it. And I guess the best reason which has been suggested is the water referred to in this patent is just an environment. I guess that is as good a reason as anyone can suggest. I do not see why it is not valid.

And at any rate it would seem to me to be absurd — it would just be reducing a very excellent rule to an absurdity — to say that this plaintiff is misusing its patent because every time it sells a mixture of sodium alginate, sodium carbonate, calcium carbonate, and anhydrous calcium sulfate, or their equivalents, it does not also sell a little water. I think that would be reducing the rule to an absurdity.

And, as I say, the best reason that has been suggested to me as to why the rule does not apply is that the water just constitutes the environment in which these chemicals perform.

At any rate, I do not think there has been any violation of the rule laid down in the Mercoid case.

Logically, he cannot get around the Mercoid case. What he says in effect is: "Let's throw the water out of the claim and treat the claim as though it did not have any water in it, and then we have a case of direct infringement, and we do not have to worry about the Mercoid rule."

That is the same sort of problem that hits the courts regularly every time they get a fact situation of this kind, and now they decide one way and now they decide another.

Mr. CRUMPACKER. Another example that occurs to me. That is the jet aircraft engine. I understand that most of the basic features of these engines are covered by English patents. I do not think

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any trouble will come up over it, inasmuch as assignments or agreements have been made for the use of the patent. I suppose if you were asked a question concerning some nut or bolt used in a jet aircraft engine, you would say that that is not an essential part or basic part, nor is it a key to the basic invention, so therefore the manufacturer of the nut or bolt would not be guilty of contributory infringement.

But, take for example the fuel-metering device which is manufactured by the Bendix Aviation Corp. Now, that, I would judge, would be awfully hard to say was not a basic part of the invention, because it was one of the key things that had to be developed in order to make a jet aircraft engine work.

Now, the Bendix Aviation Corp. may have a license on some of the British patents, too, but supposing they developed a jet fuel-metering device that was substantially different from any previously existing, and sold that to manufacturers of jet engines. Would they possibly be guilty of contributory infringement?

Mr. RICH. You have posed, sir, a very complicated question, which may be answered either way, and I am not trying to dodge the issue. But if the patentee invented the very fuel-metering device which Bendix chooses to manufacture without a license —

Mr. CRUMPACKER. That would be a direct infringement, of course.

Mr. RICH. But if this fuel-metering device is claimed in the patent in some language which says in combination, a combustion chamber which was old, a metering device of a specific character, and so forth, then the defense is, well, we do not sell combustion chambers, we only sell the metering devices, and knowing somebody else is going to put them in the combustion chamber, I would say perhaps it should be held to be an infringement.

But you have got to go into the facts, and the court has to go into the facts, and it is a question of whether it is a case like the first contributory infringement case that ever was decided, the old kerosene-lamp case, or whether it is like some of the other early cases.

Now, just let me give you two examples: You know what a kerosene lamp looks like, with a globe to hold the oils and the brass works and the glass chimney.,

And in the first case, which is discussed in the previous hearings on the contributory infringement bills, the invention was in the brass works; they were sold, I believe, attached to the base, but without any chimney, and the claim in the patent included a chimney as a positive element. The defendant sold lamps without chimneys too, just the way the plaintiff did, and the defense was: "We don't infringe because your claim includes a chimney."

And the court said never mind this technicality, this is virtual infringement because when this lamp is sold there is a certain inference that somebody is going to put a chimney on it.

On the other hand, one of the next cases that came along, which is the first one in which the words "contributory

infringement" were ever used, the device which was sold was a little relay which could be used in all sorts of places. And there was no proof connecting the sale of this relay with any direct infringement, and for that reason the plaintiff did not prevail. But even if there had been some such proof, it was still a common article of commerce, let us say, and many

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cases came along later dealing with articles of that kind holding that to let a patentee control the sale of common articles such as stove pipe and sheet iron and nuts and bolts would be too great an interference with trade and should not be tolerated.

This thought goes back to the very earliest days. It was lost sight of in the gay nineties, this doctrine became greatly inflated, it was greatly abused, the courts justifiably cracked down on it. The whole situation got a bad smell, and in due course, this new doctrine of misuse was evolved which sort of counteracted it, and we are today left with a dilemma which we are trying to straighten out.

Mr. CRUMPACKER. I was merely citing those examples to try and clear up my own thinking on the application of this section.

Mr. RICH. Well, in each case you would have to look at the details and see what was invented, and in effect whether the alleged infringer is appropriating somebody else's invention, or whether he is not. And the one thing we have definitely tried to do is to exclude the people who sell common articles of commerce, staples, things that had nothing to do with the invention, nuts, bolts, cement, sand, nails, lumber, even things especially adapted, as Mr. McCabe pointed out this morning, to fit things into other people's apparatus, unless they are a material part of the invention.

And I think that Mr. McCabe has overlooked the fact that we have added those words to this statute.

I would just like to say a word about paragraph (d) of section 231.

Mr. ROGERS. Before going to that, may I make inquiry concerning section (c) of 231.

Do I understand that that is just an attempt to clarify what the judicial decisions have said constituted contributory infringement?

Mr. RICH. I could not say, sir, yes or no, because the judicial decisions have said so many different things at so many different times.

Mr. ROGERS. That is the point I am getting at.

Mr. BRYSON. There are many of them in controversy.

Mr. RICH. This field of patent law is the only one I know of in which the Supreme Court has specifically overruled itself.

Mr. ROGERS. That leads to the next thing.

Mr. RICH. That means that when you ask me a question like that I have to say: Of what period of time are you speaking?

Mr. ROGERS. This committee was given some information to the effect that this bill was merely a restatement of statutory law plus common accepted interpretations of the Supreme Court or higher court decisions, that in its nature, the entire bill should not be a controversial one. And we come to the question of infringement of patents, as set forth here in section 231, and we recognize that the law before was: That he who does infringe shall be liable under the court decisions, which takes care of section (a) as I understand it of 231.

And then (b) is one who induces another to infringe, why, he is liable as an infringer.

And under (c) we have, as you have testified, and many others, some decisions of the court that reached to a contributor. That is, one who sets about as you demonstrated, and in many other instances, to get around — let us put it point blank — that many people sit around and try to arrive at some manner and method in which to get around a patent.

Mr. RICH. May I say that section (c) does not primarily deal with that particular kind of a situation, it deals more with a situation

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where the economics of the industry is such, perhaps, that the invention is not sold in the form in which it is claimed in the patent; it is sold in a slightly incomplete form like the lamp without the chimney, so that there is a technical defense based on the omission of something mentioned in the claim. As in this O'Donnell Moulding Material case, the stuff was sold in the package as a dry powder which the dentist mixed up with water, but the water was included in the claim. So it was not an attempt by anybody to avoid infringement, it was a situation in which the patentee found it practically impossible to enforce this patent unless he could proceed against somebody who was not technically a direct infringer, but who was a person who did everything calculated to bring about the infringement.

Mr. ROGERS. In that instance he would be a direct infringer and not contributory. Is that not the case that you illustrated?

Mr. RICH. Not under the technical interpretation of the patent law. The reason is that the defendant who is doing

these acts is not making or using or selling the invention claimed in the patent, but something different.

Mr. Rogers. Some part of it.

Mr. Rich. And the minute there is any difference between what he is selling or making or using and the claim language, then it becomes something other than a direct infringement and you have to put a different label on it, and it is called contributory infringement. And the important thing that the courts all seize upon and the thing that makes all the trouble is that the thing which does not meet the terms of the claim becomes "an unpatented thing."

Mr. Rogers. I am not sure I follow you.

Mr. Rich. It is not covered by the claim, the claim doesn't fit. It is like a puzzle, you cannot put the one down on the other, and make them fit, there is a difference. The minute there is a difference, there is no infringement, therefore, you have to go after them under this doctrine of contributory infringement.

Mr. Rogers. Have you seen them go after the one who, according to this definition, knowingly, prepares the article — and this article is a material part of it — for the special purpose of using it to infringe the patent. You make all those requirements necessary in order that he may be guilty as a contributor.

Now, were you present yesterday when the Justice Department man testified?

Mr. Rich. I was not present, but I know the testimony.

Mr. Rogers. You know the testimony?

Mr. Rich. I have read it.

Mr. Rogers. You know their thinking in the matter. It

might lead to further antitrust violations, or monopolies. Have you any comments in that regard?

Mr. Rich. I do have comments on the statement, with which I do not agree with respect to its conclusions.

I do not agree that this section, if enacted, would extend the law of contributory infringement.

There again we have a point of view. If you take the point of view that there is no such things as contributory infringement today, then this bill would extend the doctrine by bringing it back into force to a certain extent. But as I remember the testimony of the representative of the Department of Justice on the second contributory infringe-

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ment bill, it was to the effect that the Supreme Court had not abolished the doctrine of contributory infringement, that it was still there for application in a proper case, and that is what we are trying to do in the bill, make sure it is there for application in the proper case.

Mr. Rogers. Then I take it from your statements, that there is some difference of opinion among those engaged in the practice of patent law as to whether or not the Supreme Court in its decisions has done away with contributory infringement.

Mr. Rich. There is a great difference of opinion.

Mr. Rogers. There is a great difference.

Mr. Rich. There is a great difference of opinion on the part of the bar and also apparently on the part of the judiciary, because down in the fourth circuit, in the case of *Florence-Mayor Nuway* v. *Hardy* (77 USPQ 439), the court

held the defendant liable for contributory infringement and said the Mercoid case did not apply, and that the proper rule was that of *Henry* v. *Dick,* which was the case which the Supreme Court overruled in the Motion Picture Patent case, when it reversed itself as I mentioned earlier.

That is what they did there, and in correspondence with the attorney for the winning party in that case, he said to me flatly, "Obviously the circuit court did not properly apply the Mercoid case, and I am sure that if we had gone up we would have been reversed."

Mr. ROGERS. Then in effect this recodification, particularly as to section 231, would point out to the court, at least that it was the sense of Congress that we remove this question of confusion as to whether contributory infringement existed at all, and state in positive law that there is such a thing as contributory infringement, or at least it be the sense of Congress by the enactment of this law that if you have in the Mercoid case done away with contributory infringement, then we reinstate it as a matter of substantive law of the United States and that you shall hereafter in a proper case recognize or hold liable one who has contributed to the infringement of a patent.

That is the substantive law that we would write if we adopted this section 231 as it now exists. Is that not about right?

Mr. RICH. That is a very excellent statement, and I am very glad that you made it, because the opinion of all of us in the patent bar is that this is a situation in which the decisions of the court have left us so much at sea that only Congress can solve the problem.

Mr. ROGERS. Now, I, like Mr. Crumpacker have had some letters and pose this question: They place an interpretation

on this to this effect: Suppose I were the manufacturer either through a special order or I had it in my regular order of business, maybe a staple article. Of course, if it is a staple article then it would not apply. But suppose he came in on a special order and told me that he would be using it, and by the use in a certain machine then I would have an obligation to go and ascertain whether or not it violated this patent or this machine that had been patented, and that that is an obligation that is placed upon me as the manufacturer and that never existed in the law before.

Now, could you enlighten us as to what obligation the manufacturer may have had to make an investigation of that situation prior to the Mercoid case or afterward?

What I mean by that is: Did he, prior to that time, lay himself liable as a contributory infringer prior to the Mercoid case or had his status changed any by the Mercoid case, or would that depend upon

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the interpretation that you have illustrated here, that one set of members of the bar say that it has done away with contributory infringement and the other says that it has not. And this is just merely for the purpose of trying to clarify it. But in the clarification, does it place the manufacturer of these articles under any greater handicap than he had before if this was passed as a law?

Mr. RICH. I don't think it places him under any greater handicap than he was under for a long time.

As I suggested, in the old days, back before 1917, say, there was a contributory infringement doctrine which really flourished. Almost anybody who made any part of a patented

invention, especially an element of a combination, might be held liable. And business lived with this for 25 years without much trouble. I don't think he is under any greater handicap than every businessman is under in taking the risk of infringement every time he makes anything.

There are ways of finding out, and he is certainly not terribly handicapped when he has to go and do this knowingly. He has to know what he is doing this for, and then if he is doing it knowingly, he only has to consult his counsel as to whether what he is supplying constitutes a material part of the invention, and so on, complying with the rest of (c). And this is an ultra conservative type of contributory infringement. You have to balance the equities in this situation. It puts a little hardship on some businessmen to find out what their patent was. But on the other hand, remember this: there may be twenty or thirty percent of all the patents that are granted that cannot practically be enforced against direct infringers because of the nature of the invention and the way it is claimed in the patent.

Like this dental compound, it is simply not feasible to go around the country suing every dentist who buys a package of this stuff, and the practical way to give the patentee some way to enforce this patent right that he has been given is to let him go after the brains of the enterprise, the person who is really responsible and not the innocent end user.

Mr. ROGERS. Well, I take it, then, that this would include the chemicals that you are talking about, that are necessary in a dental case, that if I manufactured one of them, and Mr. Crumpacker manufactured another and the chairman manufactured another, and you manufactured the fourth ingredient necessary to make this up, we are engaged in a

business, probably making that particular chemical which we call a staple article.

Now, by virtue of the fact that the man has the patent on it, the rest of the world, if they want to, can go down here to the Patent Office and see that combination, and suppose that Mr. X then sees that combination and he then comes to me and the other manufacturers and buys in large quantities and proceeds to infringe the man's patent, and we know that when he buys it, that he is going to use it for that purpose.

Mr. RICH. You and each of you, it seems to me, are beyond question, specifically excluded by the language of paragraph (c).

Mr. ROGERS. Because we have a staple article or ——

Mr. RICH. Yes; because what you are selling is not a material part of the thing which was invented, which was a combination of chemicals which has to be brought together from the ordinary sources of those chemicals.

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Mr. ROGERS. But here, I as the manufacturer — it may be a staple article and it may not — but I as a manufacturer of a certain part, have it to sell, and as I have pointed out the other four would have certain parts of it to sell, and in fact the man comes in and tells us what he is going to use it for. We then would knowingly sell him a component part of a thing that we know he is going to use to infringe a patent.

Mr. RICH. But you are still excluded because it is a staple. Either it is a staple or it is just a commodity of commerce, which has some other substantial noninfringing use.

Mr. Rogers. Yes.

Well, then, you feel, when we sell a staple article or commodity of commerce, that any who have engaged in the business of handling those things although we know the individual who purchased it is going to infringe a patent, that there would not be any liability on us, although we may have especially prepared that, or knew that it would be especially adapted for that purpose, that that would relieve the manufacturer from it?

Mr. Rich. I definitely do so feel. We definitely wrote this language to take care of the very situation which you have given us as an example: The chemical manufacturer who makes chemicals to order, knowing what is going to be done with them or not knowing what is going to be done with them. One of the worries of the chemical manufacturer is that his customers come in any say, "Make us up so-and-so, according to this description, and we won't tell you what we are going to do with it; it is none of your business."

Mr. Rogers. Well, then, changing the subject for a moment, do you think that the adoption of section (c) of this section 231 will lead back to the practice that existed as I believe you said, back in 1914?

Mr. Rich. Well, not that far back. You cannot compare it to a definite era, but it would alleviate the confusion which has arisen as a result of the Mercoid case. This whole misuse doctrine began in 1932, I believe, in the Carbice case, where the dry ice was involved, and it would not touch the result of the Carbice decision.

There would be no possibility under this section of utilizing the patent to monopolize the sale of dry ice which was a staple article of commerce, or a commodity of commerce

which had been known 80 years. It would still be misuse as in the Carbice case, even though this section were enacted.

Mr. Bryson. Have you finished, Mr. Rich?

Mr. Rich. I was about to make one remark on paragraph (d) when we became involved in this last discussion, and all I want to say about it is this: It deals with the misuse doctrine, and the reason it is necessary is that the Supreme Court has made it abundantly clear that there exist in the law today two doctrines, contributory infringement on the one hand, and misuse on the other, and that, where there is a conflict, the misuse doctrine must prevail because of the public interest inherently involved in patent cases.

Other decisions following Mercoid have made it quite clear that at least some courts are going to say that any effort whatever to enforce a patent against a contributory infringer is in itself misuse. The cases are cited in the old hearings. Therefore we have always felt — we who study this subject particularly — that to put any measure of contributory infringement into law you must, to that extent and to

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that extent only, specifically make exceptions to the misuse doctrine, and that is the purpose of paragraph (d).

It goes with, supports, and depends upon paragraph (c).

Mr. Bryson. We are very much obliged to you, Mr. Rich, thank you.

Mr. Rich. Thank you, Mr. Chairman.

Mr. Bryson. We will next hear from Mr. Fugate, of the Department of Justice. Will you come forward, please, and identify yourself for the record?

STATEMENT OF WILBUR L. FUGATE, TRIAL ATTORNEY, ANTITRUST DIVISION, UNITED STATES DEPARTMENT OF JUSTICE

Mr. FUGATE. Mr. Chairman, my name is Wilbur L. Fugate, and I am a trial attorney in the Antitrust Division of the Department of Justice.

Mr. BRYSON. Do you have a prepared statement?

Mr. FUGATE. No, sir; I do not.

I just wish to amplify some of what Mr. Brown said yesterday.

Mr. BRYSON. Do you contemplate requiring much time?

Mr. FUGATE. No, sir; I do not believe so, particularly in view of Mr. Rich's comments.

I will address my remarks specifically to section 231, which he has just commented upon.

Mr. BRYSON. All right, you may proceed.

Mr. FUGATE. First, I wish to refer to the statement of the Department of Justice at the hearings on H. R. 3866 of the Eighty-first Congress, a former bill to enact this doctrine of contributory infringement into law, and in substantially the same form as this bill.

The doctrine of contributory infringement arose out of a common-law doctrine that one who aids another in committing a tortious act may find himself guilty of a tort.

One case, at least, has defined "contributory infringement" as the intentional aiding of one person by another in the unlawful making, using, or selling of a patented invention.

It has been settled that there is no contributory infringement without direct infringement. It has also been settled, as Mr. Rich stated, that the sale of a staple article of commerce to a direct infringer does not constitute contributory infringement, even though the seller of a staple article knows that it is to be used in direct infringement.

So much for contributory infringement on the one hand.

The other doctrine which Mr. Rich mentioned is that of misuse of patents which has a long history. It was perhaps given body in the Mercoid decision. The "misuse of patents," insofar as it has anything to do with contributory infringement, is the doctrine that one who has a patent may not license that patent upon condition that the purchaser may not deal in goods of another; or, in other words, that the purchaser purchase unpatented supplies exclusively from the patentee.

A similar doctrine has been written into law in section 3 of the Clayton Act.

Now, the Mercoid case merely held that the practice in that case was substantially similar to this "misuse" doctrine, or this "tie-in clause" doctrine which the court had formerly announced. In the Mercoid case the patentee and his exclusive licensee had engaged in

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the practice of selling an unpatented Stoker switch together with a license that the sale of the Stoker switch gave the purchasers a license to use a patented furnace assembly.

Then, in order to enforce that practice, the patentee sued suppliers of the unpatented Stoker switch for contributory infringement.

But, assuming that to be the law from the interpretations of the various court decisions, how does section 231 in any manner misstate that law or enlarge upon it and, if so, how?

Mr. FUGATE. I believe that it does. Sub-section (c) states that "whoever knowingly sells a component of a patented machine." Nowhere in subsection (c) is there any reference to knowledge that the component part is to be used in an infringing manner.

Mr. ROGERS. You think that the fact that it says "whoever knowingly sells a component of a patented machine" without also putting —

Mr. FUGATE. If that means that whoever shall sell a component part of a patented machine knowing that it will be used in a patented combination or something of that sort, why, I would think that it does state the present law. But I understood that Mr. Rich took the opposite view.

Mr. ROGERS. What I am getting at is that this section (c) says "whoever knowingly sells" and so on "for use in practicing a patented process, constituting a material part of the invention." Now, under that definition he has got to knowingly sell a component part knowing that it constitutes a material part of the invention.

Mr. FUGATE. That is why I am not clear as to the meaning. I am not sure that it means that.

In fact, as I understood from Mr. Rich, he doesn't think it means that.

Mr. ROGERS. As I understood Mr. Rich, he said that there were some who just felt that the Mercoid case did away with contributory infringement.

Mr. FUGATE. I don't believe the Mercoid case enters into this particular part. It may be a matter of language. At

any rate, if this means "whoever knowingly sells a component of a patented machine" knowing that it is to be used in an infringing manner, why, I believe it states the present law of contributory infringement.

Mr. CRUMPACKER. It is purely a matter of semantics, as I see it. That is, the "knowingly" refers to the fact that it is to be used as a component rather than to his selling of it.

Mr. FUGATE. That is the question that I raise; yes.

Mr. CRUMPACKER. Your objection is to the phrasing of the thing rather than to the substance of it?

Mr. FUGATE. It is to the language.

Mr. CRUMPACKER. To put it differently, if the language means that the "knowingly" refers to the use of the article as a component part in some patented thing, then you say that it correctly states the law.

Mr. FUGATE. I believe so.

Mr. CRUMPACKER. Your objection is that you don't think the language clearly indicates that that is what the "knowingly" is supposed to refer to?

Mr. FUGATE. Yes, sir.

Mr. BRYSON. It seems to me that if he sells it at all he knows he sells it.

Mr. FUGATE. He knows he sells it; but, as in this case that I mentioned, the cutter of the metal plate according to a special pattern

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didn't know that that was to be used in an infringing manner, that it was to be used in a patented combination.

Mr. Rogers. Inasmuch as you recognize that the law still gives a cause of action against the contributor who helps infringe, would there be any objection on the part of the Justice Department to clarify that law in definite words so that there would not be the confusion that the gentlemen have testified to? Or is the objection by the Justice Department to the fact that you are fearful that if this is in the law it may lead to monopoly and drive out those who may have the incentive to manufacture something new or comparable to the patented article?

Mr. Fugate. I believe we oppose it for both reasons. The Department objects to writing the doctrine of contributory infringement into the law. It is not particularly a patent doctrine. It arises from a common-law source. Therefore, it doesn't seem to have any particular place in the codification of the law of patents.

Mr. Rogers. You think that there is not a great deal of confusion among patent attorneys as to what constitutes contributory infringement; that is, more than as to what constitutes negligence in any ordinary damage suit, recognizing that it is impossible for us to write a rule of law for every rule of conduct of every individual?

Mr. Fugate. Yes, sir; that is the position.

Mr. Rogers. For that reason any attempt to do it would not cover the entire field, and if this particular field were covered in some manner it would lead people to violate the so-called antitrust law?

Mr. Fugate. Yes, sir. Our primary objection to section 231 is subsection (d); that is, the misuse doctrine. Now, at present under the Mercoid case, as I have stated, if there is misuse of patents, the patentee cannot recover either for direct infringement or contributory infringement.

Now, this section attempts to say that if there is contributory infringement the patentee may recover even though there is also misuse.

In other words, as I read the section, it would have the effect of wiping out a good deal of the law relating to misuse of patents, particularly with reference to tying-in clauses.

Mr. Rogers. As I understood Mr. Rich, it was to the effect that this subsection (d) only went so far as to say that it is a misuse of a patent and that they couldn't recover and that it didn't go ahead and also make a contributor liable; or does it?

Mr. Fugate. As I interpret section (d) it says that if there is contributory infringement the patentee may recover even though there is misuse. It says that if he seeks to enforce his patent rights against infringement or contributory infringement, that is, under 3 of subsection (d), reading from subsection (d), "The patentee shall not be denied relief or deemed guilty of misuse or illegal extension of patent rights."

Mr. Rogers. Do you think there is any possibility that the Justice Department and the coordinating committee can arrive at a solution of this problem at all so that you may remove the confusion that you say exists?

Mr. Fugate. I can't speak for the Department on that. I am sure that wherever there is a question of confusion in the law we are always willing to cooperate in any attempt to remedy it. We have taken the position that we don't think there is any confusion in the law in this

respect, and even so we would be opposed to doing away with the misuse doctrine in preference to the contributory infringement doctrine.

Mr. Rogers. In other words, you want the misuse doctrine to stand under the decisions as announced?

Mr. Fugate. Yes, sir.

Mr. Rogers. And you think that section (d) would change those decisions in certain respects?

Mr. Fugate. Yes, sir.

Mr. Rogers. And so far as you are concerned, you don't think that any confusion exists as to what constitutes contributory infringement under the present law?

Mr. Fugate. Yes. I might also say that I think this section comes under the heading of a controversial issue. I don't believe that it should be included in a codification bill.

Mr. Rogers. You say "controversial." As I understand the controversy, it is as to whether or not the Supreme Court still recognizes an action for contributory infringement. Now, you take the position that they still do recognize that and that there is no confusion as a result of their decisions.

Now, that is your position, is it not?

Mr. Bryson. Although a recent decision was decided by a 5 to 4 division of the Court from which came five separate reports, and that fact does not indicate that there is any confusion?

Mr. Fugate. That was the Mercoid case, I believe, which Mr. Rich had reference to and in which the opinions all agreed on the misuse doctrine.

Now, since that time the Supreme Court has affirmed the Mercoid decision in a number of cases.

Mr. Bryson. Would you list them, please, for the record?

Mr. Fugate. For one there is the *United States* v. *Line Material Co.*

Mr. Bryson. How was the Court divided in that case?

Mr. Fugate. I don't believe there was any dissent from the Mercoid case. That was 33 United States 287.

Another case is the *United States* v. *Paramount Picture* (334 U. S. 131).

I believe there are many others in which the Court cited the Mercoid case with approval.

Mr. Bryson. Are there any other questions?

Mr. Crumpacker. Yes. You say that the Department is opposed to this subsection (d)?

Mr. Fugate. Yes.

Mr. Crumpacker. In its entirety?

Mr. Fugate. Yes; I believe so.

Mr. Crumpacker. You mean to say that a patentee should be denied relief because he has previously sought to enforce his patent rights against an infringer?

Mr. Fugate. Not if he has been guilty of misuse of patents previous to that.

Mr. Crumpacker. It doesn't say that.

Mr. Fugate. It says —

no patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief for or deemed guilty of misuse or illegal extension of the patent.

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Mr. Crumpacker. And it names three things, the third of which is that he has sought to enforce his patent rights.

Mr. Fugate. Well, now, if that is applied generally, it includes a case where there is a misuse.

Mr. CRUMPACKER. Why?

Mr. FUGATE. Because it is all-inclusive. No one shall be guilty of misuse if he has sought to enforce his patent rights against infringement or contributory infringement. As I read it, you might also add "even though he has misused his patent."

In the Mercoid case, for example —

Mr. CRUMPACKER. It says that he shall not be deemed guilty of misuse because he has done one of these three things. It doesn't say that he shall be deemed not guilty of misuse because he has done this. I think you are reading it backward. That is, he may have done all three of these things and still be guilty of misuse, as I interpret the language.

Mr. FUGATE. That is not the way Mr. Rich interpreted it. As I understood his testimony, he said that where there was contributory infringement the doctrine of misuse would be limited, that it would be an exception to the doctrine of misuse. That is also the way I interpreted it.

Mr. CRUMPACKER. It seems to me that the language is clear, and it says that he shall not be denied relief or be deemed guilty of misuse because of having done any of these three things. It doesn't say the reverse of that, that because of having done these things he shall be deemed not guilty of misuse.

Mr. FUGATE. In the Mercoid case a suit for contributory infringement was part of the general plan of misuse of the patent. In other words, that was part of the plan of operation, the sale of the stoker switches which were unpatented with the license to use them in a patented assembly. That license was given only to purchasers of the stoker switches

from the patentee or his exclusive licensee. Any others were sued for contributory infringement.

Now, the Supreme Court held that that plan of operation was substantially the same as conditioning the licensing of a patent on the condition that the purchaser purchase unpatented supplies from the patentee.

Mr. ROGERS. You are objecting to section (d) because these three things indicate that if he should do any one of the three or all of them he could still recover. Subsection (1) says "derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent." Subsection (2) says "licensed or authorized a person to perform acts which if performed without his consent would constitute contributory infringement of the patent."

Subsection (3) says "sought to enforce his patent rights against infringement or contributory infringement."

Now, in the misuse of patents have they taken those three items as outlined there and said that that constituted misuse of a patent and as a result have denied the patentee the right to recover? Have they heretofore had decisions to that effect?

Mr. FUGATE. I believe you are reading into that or rather interpreting that as meaning that a patentee shall not be deemed guilty of misuse of patents merely because he brings an infringement suit.

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Now, if that is all it means, why, of course, the Department doesn't oppose it.

Mr. CRUMPACKER. Do you find anything intrinsically wrong in any of these three acts enumerated there? Is the

Department opposed to a patentee doing any of these three things enumerated in this paragraph?

Mr. FUGATE. As we read the section —

Mr. CRUMPACKER. Never mind the preamble. I mean just specifically those items enumerated, the three items. Does the Department consider any one of those acts as undersirable or contrary to public policy?

Mr. FUGATE. I do not believe you can read them without reading them in connection with the preamble. Of course, if you mean does the Department oppose a patentee suing to enforce his rights by either direct or contributory infringement action, of course, we do not oppose that. We have no objection to a patentee enforcing his patents.

However — and this is not only my interpretation — you have heard Mr. Rich interpret it as meaning that it makes an exception to the law of misuse of patents where contributory infringement exists. As I say, it is not only my own interpretation of the section.

Mr. ROGERS. If under the present law a man should do any one of the three things outlined in section (d), is he denied the right to recover because he may have performed one of those three acts?

Mr. FUGATE. Not in and of themselves.

Mr. ROGERS. What is that?

Mr. FUGATE. Not in and of themselves.

Mr. CRUMPACKER. How about a combination of the three or any two of the three?

Mr. FUGATE. Not having had any part in writing the language, I am not certain what it means. But I am convinced that upon Mr. Rich's interpretation and upon the

interpretation which the Department of Justice has placed on it, it does seriously impair the doctrine of misuse of patents in favor of the doctrine of contributory infringements.

Mr. ROGERS. In other words, the Department's attitude is that it should be the duty of the Court to ascertain whether or not there has been a misuse of the patent?

Mr. FUGATE. Yes.

Mr. ROGERS. Without the Congress saying that if he has misused it in these three separate items — well, I will put it this way: You do not feel that the Congress should say that if he has misused it in these three ways that he should thereafter be permitted to recover if the Court should decide otherwise?

Mr. FUGATE. Don't misunderstand me, that I think that any of these things in and of themselves are a misuse of patents. All I am saying is that if misuse exist the Court should be able to deny recovery on the ground of misuse of patents despite the fact that contributory infringement may exist.

Mr. ROGERS. Do you know of any instances where the courts have denied recovery where a patentee has performed, by virtue of the fact that the patentee has performed any one of the three acts?

Mr. FUGATE. Well, the Mercoid case itself was a case where the patentee was attempting to enforce his rights in an action of con-

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tributory infringement. Now, as I read this section, he would have recovered in that case, in the Mercoid case, under this section.

Mr. Rogers. If this section had been in the law expressed by Congress at the time the Mercoid case was decided, then by virtue of either one, two, or three, there would have been a recovery because it may have come within one of those?

Mr. Fugate. All the patentee was doing there was seeking to enforce his patent rights against contributory infringement. He was denied recovery for infringement because he was misusing his patent. But all he was attempting to do was to bring a suit for contributory infringement, and the Court assumed that that existed in that case.

Mr. Rogers. I may have misunderstood the Mercoid case. Wasn't it misuse because he was requiring the purchase of something for the furnace?

Mr. Fugate. That was misuse, and the misuse was sufficient to defeat recovery for contributory infringement.

Mr. Rogers. Do you think any one of those three items set forth in subsection (d) would fit into the Mercoid case in any manner?

Mr. Fugate. I believe so.

Mr. Crumpacker. I would like to make the observation that this is one of the few points in this bill where the language is clear and unequivocal, and it seems to me capable of only one interpretation, and that interpretation is entirely contrary to that which the Department seems to be placing upon it.

Mr. Fugate. I believe Mr. Rich placed the same interpretation upon it. I would like to ask him if that is his interpretation.

Mr. Rich, as you interpreted this section, it would make an exception of the misuse doctrine where contributory infringement existed?

STATEMENT OF GILES S. RICH, NEW YORK CITY, N. Y.

Mr. Rich. I will agree with that to this extent: That as I testified it is necessary to make an exception to misuse to the extent that you revive contributory infringement in paragraph (c), and this whole section (d) is entirely dependent on (c). Where (d) refers to contributory infringement, it only refers to contributory infringement as defined in (c) and nothing more.

Mr. Crumpacker. In other words, all it says is that bringing an action against someone who is guilty of contributory infringement is not a misuse of the patent.

Mr. Rich. That is true. And there is a reason for this language. The reason is to be found in a decided case, *Stroco Products* v. *Mullenbach* (67 U. S. P. Q. 168), where a district judge out in California granted a motion for summary judgment of dismissal before trial on the ground that the complaint was merely an attempt to use the patents to maintain an unlawful monopoly of an unpatented article. The patent claimed a combination of elements for arc welding and the method.

The defendant sold control units for use in the combination and for practicing the method and furnished wiring diagrams, and advertised the use of his product.

Knowledge and intent on the part of the defendant were stipulated. He knew what his products were going to be used for. There was no evidence in the case whatsoever, there having been no trial, of any attempt to misuse the patent otherwise than by bringing the suit.

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The court dismissed the suit "according to the principles announced in Mercoid and for the reasons therein stated."

That is a clear case where merely bringing a suit against one alleged to be a contributory infringer was per se misuse of the patent. Now, that is about as far as the logic of the Mercoid decision can be carried.

Mr. FUGATE. The judge in that case had no trouble deciding that this was not misuse in bringing them to suit.

Mr. RICH. He held that the bringing of this suit was per se misuse. That was the end of it. You can't sue a contributory infringer — period.

There have been other cases like that. I have them here. *The Lincoln Electric Co.* v. *The Linde Air Products Co.* (80 U. S. P. Q. 59) is the same situation.

Mr. BRYSON. We have been getting along beautifully all during this hearing. It seems as though we have run into a period of confusion here. It might be like the judge down home of whom it was said that the more light you turned on him the blinder he got. That may be what has happened to the committee here. If you experts here in this particular field seem confused, imagine those of us who sit here and who have had no special training.

Mr. RICH. Mr. Chairman, you do not in the least surprise me; and if you have a minute it might help this committee and it might help the Department of Justice, if it is in an amiable mood, to know a little bit of the history of this section, which, as I said, came from those old contributory infringement bills.

The whole thing started in New York, not in Wall Street, but in New York where I come from.

Mr. BRYSON. Well, coming from the South, I would say that you come into court with unclean hands.

Mr. RICH. Now, we have a patent law association up there, as you have heard, which decided to tackle this problem of

contributory infringement after the Mercoid decision and propose some legislation.

We worked on it through the Patent Law and Practice Committee for about a year and a half to 2 years before any bill was proposed. The origin of this contributory infringement section was a proposal made by Mr. Robert Byerly, as the older hearings show.

It just happens that contributory infringement has been a hobby of mine since the Carbice case was decided about 1932. I wrote an article on it at that time, disclosing that I hadn't the slightest comprehension of what the court had done. Therefore, I shall not even cite it.

Since then I have learned quite a lot.

Mr. Byerly wrote a proposal which was in substance along the lines of paragraph (c) which revived contributory infringement and which was submitted to me and to other members of the committee. I said, "That is fine, but it won't work because the reason we don't have contributory infringement is that every time you try to enforce a patent against a contributory infringer, the court says it is misuse and throws you out."

Now, the funny thing about all of these misuse cases is that what the defendant does has nothing to do with the decision. It is never a question of whether or not there was infringement. They don't decide whether the defendant is guilty or not guilty, whether he infringed or didn't infringe.

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They say to the plaintiff, "You are a bad boy, and you came here with unclean hands. You will not have the aid of this court of equity."

Nobody realized that this had happened until a suit was brought first against a contributory infringer and lost,

whereupon the plaintiff's attorney said, "That is too bad, we will have to sue the direct infringer."

They sued the direct infringer, and the court said, "Too bad, you don't appreciate the ground of the earlier decision. It is the plaintiff's fault that he can't recover, not the defendant's, and it doesn't make any difference whom he sues."

Mr. ROGERS. Now, let me interrupt you there. I thought I asked the question whether or not the law gave a cause of action to the patentee against a contributor, one who contributes to the infringement, and I thought the answer was that in those cases they did have a cause of action. Now, was I wrong in getting that impression, that is, that there is an action, or that a cause of action exists at all where, in the proper cases, a man can contribute and be recovered against?

Mr. RICH. I can only tell you that they do, even today.

Mr. ROGERS. All right, that is my impression as to the answer that was given. Now, following that, the next question is this: Would the fact that you then institute a suit against one who has contributed to the infringement result in a court automatically dismissing it because you have instituted a suit?

Mr. RICH. I can only say that they do. It depends on what court you are in.

Mr. ROGERS. What was that?

Mr. RICH. It depends on what court you are in.

Mr. ROGERS. Well then, do they dismiss it, though, because the action has been stated?

Mr. RICH. Oh, no.

Mr. ROGERS. Or do they dismiss it because you have filed a lawsuit?

Mr. RICH. No. They dismiss it because in attempting to utilize the patent to cover something which it doesn't literally cover in its claims, you are thereby attempting to extend the monopoly which is contrary to public policy and constitutes misuse.

Mr. ROGERS. That would apply in all cases?

Mr. RICH. It can if the defendant's attorney raises the point and the judge is sympathetic. But if it is down in the fourth circuit where they are not sympathetic, they may just brush off a defense based on the Mercoid case.

Mr. ROGERS. Can you conceive of a set of facts whereby one may be an infringer and a patentee has not by any act of his performed an act that was contrary to public policy that would cause the court not to dismiss the lawsuit? Have we ever had a case of that character that you know of?

Mr. RICH. Not that I can recall specifically. The trouble usually is that the plaintiff is in business, and he has a patent which he thinks protects some aspect of his business. If he isn't in business at all and is just sitting there with a paper patent invention which has never been commercialized in any way, then he can hardly be guilty of unclean hands. That situation hasn't come up yet.

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Mr. ROGERS. As I understand so far, any action for contributory infringement has never been successful. Is that right or is it wrong?

Mr. RICH. The plaintiff has rarely recovered in an action for contributory infringement since the Mercoid case.

Mr. Rogers. Well, at any time before the Mercoid case?

Mr. Rich. Oh, yes, of course. This doctrine has been in the law, as I said, for 80 years, and many patentees have recovered against contributory infringers.

Mr. Rogers. All right, but since the Mercoid case have there been any recoveries?

Mr. Rich. Yes. In Florence-Mayo Nuway against Hardy, there was a recovery. That was in the Circuit Court of Appeals for the Fourth Circuit in 1948, I think.

In the Tenth Circuit in 1948, the case of *National Machine Works* v. *Harris* (79 U.S.P.Q. 350), there was a recovery.

Mr. Fugate. May I just read from that case Mr. Rich mentioned. Maybe it will clarify the issue a little bit. Judge Phillips said:

> It is urged that Gerner and National should have been denied relief under the doctrine announced in *Mercoid Corporation* v. *Mid-Continent Company* (320 U.S. 661). In the instant case Gerner and National are using the patent not to monopolize the sale of what is not patented, but to prevent Harris and Calhoun from infringing and aiding others to infringe what is patented, Harris and Calhoun would be guilty of contributory infringement.

That is one of the cases that I believe we cited in the last hearing as indicating that the doctrine of contributory infringement still existed.

Mr. Rogers. It does still exist, and Mr. Rich's thought is that if the man is ever engaged in business, since the Mercoid case, he may have committed some act that is contrary to public policy and the court would deny him relief because of that act.

Mr. Fugate. Now, that comes down to what the court decides is or is not the misuse of patents.

Mr. Rogers. Yes.

Mr. Fugate. Mr. Rich mentioned the Carbice case. The Carbice case, I believe, was the case in which contributory infringement was defeated, not from the misuse angle, but because the component part was really a staple article of commerce, and therefore it wasn't contributory infringement at all.

In fact, when the court in the Mercoid case refers back to the Carbice case, they say that the doctrine of misuse hadn't been enunciated at that time.

Mr. Rich. May I participate in this dialog which I greatly enjoy because I teach patent law?

Mr. Rogers. You probably have some apt pupils here.

Mr. Rich. Carbice was historically the first case of misuse, although the word is not used in that case. The reason for the decision in favor of the defendant is stated in these words:

> Relief is denied because the Dry Ice Corp. is attempting, without sanction of law, to employ the patent to secure limited monopoly of unpatented material used in applying the invention.

That is the key to that case. It was affirmed and explained again shortly thereafter by the same court, the same judge, in Lutch versus Barber, where they were selling asphalt emulsion for curing roads. There was a patented process for curing the roads, and the asphalt

emulsion was old stuff. They said in effect, "The same reason, relief denied, no distinction."

Mr. Rogers. I thought I had a clear understanding of the question. We do recognize that there is a cause of action for contributory infringement. Now, that is admitted. But the Mercoid case, as I understand it, was decided on the

theory that the patentee was misusing his patent and, therefore, although one may have contributed and been guilty as a contributory infringer, nevertheless relief was denied because of the misuse of the patent.

Mr. RICH. That is correct.

Mr. ROGERS. That is correct up to that point?

Mr. RICH. That is exactly in line with Carbice, which, of course, is the case on which the Supreme Court was relying.

Mr. ROGERS. All right. Now, due to what many members of the patent bar believe, that it did away with contributory infringement cases, you feel that we should now state as a positive law a cause of action against contributory infringement as set forth in section (c), and that if he has done one of the three things in section 4, that shall not be considered a misuse of his patent, and thereby reestablish what you thought you had before the Mercoid case. Isn't that about what the situation is?

Mr. RICH. That is what we are driving at. I appreciate now that I never finished the statement I intended to make when I got up here, the history behind the reason for paragraph (d).

When the proposal was made to reenact contributory infringement or the equivalent of paragraph (c), a simple enactment, "this shall constitute contributory infringement," I pointed out to the author that it wouldn't work because contributory infringement was still with us as a legal doctrine. The only reason the plaintiff got no recovery was that he was held guilty of misuse.

So this, like the cat in Alice in Wonderland that was there but disappeared all but its smile, to be brought back and have a body again, meant that you had to do something about misuse. You had to say that insofar as we want con-

tributory infringement back, the act shall no longer be labeled as misuse, thus throwing the man out of court.

So attached to paragraph (c) we have a paragraph (d) that says that the recovery, the enforcement against contributory infringers, the holding out of the patent against contributory infringers, and granting them licenses, the use of it to protect the business and making money out of it, and getting your reward as a patentee, all of these things shall not be misuse, and then contributory infringement, which we have had all the time, would become effective again to the extent that they wish to have it so.

Mr. CRUMPACKER. Well, as you interpret this paragraph (d), would it in any way prevent a court from holding the monopolistic practices referred to as being misuse of patents?

Mr. RICH. I beg your pardon, sir? I was distracted.

Mr. CRUMPACKER. As you interpret this paragraph (d) as it now reads, would it in any way prevent a court from holding the monopolistic practices referred to as being a misuse of a patent? That is, where a patentee had actually been engaged in trying to gain a limited monopoly of unpatented articles through the use of a patent.

Mr. RICH. If we assume that staples are excluded from paragraph (c)?

Mr. CRUMPACKER. Yes.

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Mr. RICH. The answer is that (d) would not prevent their being held, the acts being held to be misuse.

Mr. FUGATE. I might point out that in the Mercoid case the stoker switch may not or may have been a staple article of commerce especially adapted for use in a patented com-

bination. In other words, it was contributory infringement. The court recognized that. However, as Mr. Rich pointed out, it was the action of the plaintiff which made him ineligible to come into court and recover for contributory infringement.

Mr. Rogers. May I ask this further question? Do you know of any case where the plaintiff was denied relief because he had accepted revenue from acts which, if performed by another without his consent, would constitute contributory infringement of the patent? That is number one.

Mr. Rich. The Barber Asphalt case, I think is typical of that, and to some extent the Carbice case. In the Carbice case there was a form of license on the invoice. In the Barber Asphalt case they tried to distinguish on the ground that they had no agreements with anybody, so that what they were doing was deriving revenue in the form of profits from the sale of the unpatented staple commodity for use in the invention.

Mr. Rogers. So the court then said that that act constituted something leading toward monopoly or contrary to public policy, and for that reason denied relief to the plaintiff?

Mr. Rich. That is correct.

Mr. Rogers. Now, as to No. 2, are there any cases where licensed authorized persons performed acts which, if performed without their consent, would constitute contributory infringement of the patents?

Mr. Rich. Well, that is the Mercoid type of situation.

Mr. Rogers. Yes.

Mr. Rich. It must, of course, be realized that if we had had a statute like this, the Mercoid case might have been

tried differently, on a different theory. But it deals with granting licenses to people who would otherwise be contributory infringers, not direct infringers, because they are only making part or less than the whole of the invention.

Mr. Rogers. Well now, do you know of any case where they have denied relief to the plantiff where he had sought to enforce his patent rights against infringement or contributory infringement on this section 3?

Mr. Rich. Do you mean section 2, licensing?

Mr. Rogers. No, section 3 of (d).

Mr. Rich. That is sought to enforce?

Mr. Rogers. Yes.

Mr. Rich. That is the *Stroco Products* v. *Mullenbach* case.

Mr. Rogers. Then the effect of (d) with the (3) in there would be to say to the Supreme Court that it is the sense of this Congress that where you have heretofore denied relief to the plaintiff, you shall henceforth grant his relief if he has only performed one, two, or three of these acts in (d), and that is why the Department of Justice is objecting to it?

Mr. Fugate. Yes, sir.

Mr. Rogers. And it would therefore necessarily follow that by taking (c) and (d) together we are asking the Supreme Court to not

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follow the line of reasoning of declaring that a man shall be denied his day or damages if he has done any one of these three acts. Isn't that what it amounts to?

Mr. Rich. That he shall not be denied his day or damages merely because he has done one, two, or three, or all of these acts if the contributory infringement referred to in (d) is of a type which falls within the specific terms of (c).

Now, a suggestion has come to me during this discussion which may bring the views of Justice and of the patent bar together. That would be to insert in the third line of paragraph (d) before the last word "by" the word "solely" so that he shall not be deemed guilty of misuse or illegal extension of patent rights solely by reason of his having done one or more of the following.

If he has gone beyond those and done other acts which could be misuse, then the misuse doctrine would be applicable.

Mr. ROGERS. But then even with the word "solely" we would still say to the Court that if he had done one of these, he could now be permitted to recover?

Mr. RICH. If he has not misused it otherwise. If it comes within the terms of (c). If he tries to license somebody, for instance, to manufacture a staple article of commerce, to be sold in a patented invention and collect royalties, let us say, for the manufacturing of salt tablets to be used in a patented vending machine or dry ice to be used in a patented shipping container, that will be misuse because it doesn't come within the terms of (c).

Mr. ROGERS. I might ask the further question as to whether you think we have a very good chance of explaining all of this on the floor of Congress in trying to recodify the laws of patents?

Mr. RICH. No comment.

Mr. BRYSON. Any further questions?

Mr. RICH. I think there are many other sections in the law which you would have difficulty in explaining on the floor of Congress, too.

Mr. BRYSON. Mr. Crumpacker has some questions.

Mr. CRUMPACKER. Referring again for a moment to paragraph (c), do you think it is possible that the phrasing could be improved upon there to remove the possible misinterpretation referred to?

Mr. RICH. I don't know.

Mr. CRUMPACKER. Particularly with respect to the word "knowingly" and as to what the word "knowingly" refers to.

Mr. RICH. I think it is clear to most of us that "knowingly sells a component of a patented machine" means to us that you know that the component is going into that machine. You don't have to know that it is patented. You don't have to know the number of the patent, and you don't have to know that the machine that it is going into constitutes an infringement. You just know its ultimate destination.

Mr. CRUMPACKER. But the way it is phrased the word "knowingly" refers directly to the word "sells."

Mr. FUGATE. As I understand it, Mr. Rich only intends it to refer to the word "sells." The one who sells it need not know that it is to be used in a patented combination.

Mr. CRUMPACKER. As I understand it, the wrong that is supposed to be committed is the knowledge that it is going as a component in a patented machine.

Mr. RICH. Or maybe he is just selling tapered pins.

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Mr. CRUMPACKER. I say that he knows that he is selling it. He may not know that it is to be a component in a patented article.

Mr. RICH. I think that is a construction which nobody would ever put on this section. Anybody who sells, of course, knows that he is selling it. There is no point in saying "knowingly" if that is all it means.

Mr. CRUMPACKER. The Department of Justice has put that construction on it. That is why I raised the question.

Mr. RICH. I can hardly believe that they would.

Mr. FUGATE. I would like to know whether Mr. Rich is construing "knowingly" as meaning that the supplier knows that it is to be used in an infringing manner.

Mr. ROGERS. And constitutes a material part of the patent.

Mr. FUGATE. Yes, that is the point.

Mr. RICH. I have already explained that he knows how it is to be used. He doesn't have to know about the patent, he doesn't have to be legally advised of that infringement.

Mr. CRUMPACKER. To someone who isn't familiar with this subject, it is not at all clear what elements you are supposed to know about and what elements you don't need to know about, in order to violate the section. I think it could be made much more specific and more understandable.

Mr. BRYSON. We will have an opportunity to try to rectify those different things. Gentlemen, we have run now —

STATEMENT OF I.E. McCABE, CHICAGO, ILL.

Mr. MCCABE. May I have a word?

Mr. BRYSON. We hate to cut you off.

Mr. MCCABE. For this discussion that has gone on, I have an answer.

Mr. BRYSON. What do you mean by a "word"?

We are going to leave the record open for 10 days, and any of you gentlemen who have not had an opportunity to testify, if you will identify yourself now for the record —

STATEMENT OF A. ARNOLD BRAND, CHAIRMAN, COMMITTEE ON PATENTS AND TRADEMARKS, AND TRADE PRACTICES, CHICAGO BAR ASSOCIATION

Br. BRAND. If your Honor please, I would like to identify myself as A. Arnold Brand, chairman of the committee on patents, trade marks, and trade practices of the Chicago Bar Association. That is the general bar association in Chicago.

I was going to speak in support of the bill as chairman of the committee because the association itself, through its board of managers, has not had an opportunity to review the entire matter. But as chairman of the committee, I was going to approve the bill with certain specified modifications.

I understand that those have already been presented by the coordinating committee, so if you will leave the record open we will supplement this appearance in support by a written addendum within the 10 days.

Mr. BRYSON. That will be fine.

Supreme Court, U. S.
FILED
DEC 18 1979
MICHAEL RODAK, JR., CLERK

No. 79-669

In the Supreme Court of the United States

OCTOBER TERM, 1979

DAWSON CHEMICAL COMPANY, ET AL., PETITIONERS

v.

ROHM AND HAAS COMPANY

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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The United States has an interest in the proper scope of the monopolies granted by the patent laws. The doctrine of patent misuse, at issue in this case, prohibits the extension by a patent holder of his statutory monopoly. The doctrine thus serves as a first line of defense for competition also protected by the antitrust laws. Cf. *Gulf States Utilities Co.* v. *FPC*, 411 U.S. 747, 760 (1973). The United States, as principal enforcer of the antitrust laws, is particularly concerned that this first line of defense be properly maintained.

QUESTION PRESENTED

Whether Congress in enacting 35 U.S.C. 271 intended to eliminate the doctrine of patent misuse in the situation where the holder of a process patent uses his patent to eliminate competition in unpatented articles that have no substantial use except in the patented process.

STATEMENT

Rohm and Haas Company holds a patent for a method of killing weeds in rice fields. The method uses the chemical propanil, an unpatented substance that has no substantial use except in the patented process. Rohm and Haas neither practices nor directly licenses its process. Instead, it produces and sells propanil in packages whose labeling explains use of the process, thus impliedly licensing it. Petitioners also sell propanil to farmers with instructions on their packages about how to use it in the Rohm and Haas process.

Rohm and Haas sued petitioners for contributory infringement of its patent. Petitioners in turn claimed that Rohm and Haas' refusal to grant licenses except to those who bought unpatented propanil from it was patent misuse that barred recovery.[1]

The district court held that, whether or not petitioners had contributorily infringed the patent, Rohm and Haas was not entitled to relief because its tying of unpatented propanil to the patented process was patent misuse as defined by this Court's decisions culminating in *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944), and *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944) (Pet. App. A-80). It further held that Section 271(c) and (d) of the Patent Code, 35 U.S.C. 271(c) and (d), though intended to disapprove certain dicta in the *Mercoid* decisions, did not shelter Rohm and Haas' conduct (Pet. App. A-61 to A-78). It dismissed the complaint (Pet. App. A-102).

On appeal, the court of appeals reversed. It held that Section 271(c) and (d) eliminated the defense of patent misuse so as to allow a patent holder to recover for

[1]Petitioners had requested licenses.

contributory infringement even though he has tied to his patented process an unpatented article useful only in the patented process (Pet. App. A-30 to A-42).[2]

DISCUSSION

1. The Decision Below Will Have Important Anticompetitive Effects.

The doctrine of patent misuse bars a patentee's suit for patent infringement when the patentee has attempted to exploit its patent beyond the confines of the patent grant (*Morton Salt Co.* v. *G.S. Suppiger Co.*, 314 U.S. 488 (1942)). The doctrine is thus an effective means of confining the scope of the patent grant (see *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27 (1931)). This case presents the question of the applicability of that doctrine to a patentee who refuses to license sellers of unpatented materials which have no commercial uses other than in the patented process. That question is of significant commercial importance in the chemical and pharmaceutical industries, where such unpatented materials are used in large quantities. Government investigations of possible antitrust violations in these industries suggest that it is not uncommon for major manufacturers holding process patents to offer licenses at reasonable royalties to competing sellers of unpatented products to be used in the patented process, due to a concern that efforts to protect their patent rights will otherwise be barred by the doctrine of patent misuse. The decision of the court of appeals in this case substantially diminishes that concern, and thus will encourage the refusal to license competing sellers, with a

[2]Although petitioners filed a counterclaim alleging that respondents had violated the antitrust laws, neither court ruled on the counterclaim, and it is not before this Court.

resulting substantial adverse impact on competition (which may withstand correction for a substantial time due to the expense of litigation in this field).[3]

2. The Decision Below Is Incorrect.

This Court long ago held that it is patent misuse for a patent holder to extend the patent monopoly to unpatented materials, even if those materials have no practical use except in connection with the practice of the patent. See, *e.g.*, *Mercoid Corp.* v. *Mid-Continent Investment Co.*, *supra*; *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, *supra*; *Morton Salt Co.* v. *G.S. Suppiger Co.*, *supra*; *B.B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942). Respondent plainly engaged in patent misuse under those decisions. It can avoid their force only if Section 271 of the Patent Code overruled those decisions so as to abolish the doctrine of patent misuse in cases like this. This Court in *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972), held that Section 271 must be interpreted "in light of this Nation's historical antipathy to monopoly and of repeated congressional efforts to preserve and foster competition." *Id.* at 530 (footnote omitted). Thus Section 271 cannot be read as abolishing the patent misuse defense to respondent's anticompetitive conduct unless there is "a clear and certain signal from Congress" that

[3]That adverse impact will be felt immediately; it is accordingly appropriate for this Court to consider the issue now, rather than after a final decision on the merits in this case. It is unlikely, in any event, that the proceedings on the remand ordered by the court of appeals will further illuminate the issue here involved. Instead, the court of appeals' decision that respondent's refusal to license others to compete in the sales of propanil is not patent misuse may well complicate the litigation of petitioner's antitrust claim (see Pet. App. A-48).

this was its intention. *Id.* at 531; cf. *Parker* v. *Flook*, 437 U.S. 584, 596 (1978). The court of appeals lost sight of this governing standard. Properly analyzed, Section 271 is far less than "a clear and certain signal" of intent to eliminate the patent misuse defense in this type of case.

a. The plain language of Section 271 does not eliminate the doctrine of patent misuse where the patentee ties a patent license to purchase of an unpatented product that is useful only in connection with the patented invention. Indeed, the court of appeals itself found the text less than compelling (Pet. App. A-10). Section 271(d) is the only provision that deals with the patent misuse defense: it lists three acts which by themselves shall not be deemed to constitute patent misuse. Subsection (1) of Section 271(d) permits the patentee to sell unpatented components of his invention; subsection (2) permits the patentee to license the seller of such a component; and subsection (3) permits the patentee to bring a contributory infringement suit, all without misusing the patent. Nothing in Section 271(d), however, authorizes the patentee to tie a grant of a license under the patent to the purchase of the unpatented product from the patentee. Yet it is the sale of the unpatented product by the patentee combined with the refusal to offer reasonable royalty licenses under the patent that constitutes the misuse herein. See *Mercoid Corp.* v. *Mid-Continent Investment Co.*, *supra*, 320 U.S. at 671; *Morton Salt Co.* v. *G.S. Suppiger Co.*, *supra*, 314 U.S. at 491; *B.B. Chemical Co.* v. *Ellis*, *supra*.

b. The legislative history does not provide the certainty that the words of the statute lack. As the opinions below make apparent, the legislative history of

Section 271 is ambiguous.[4] Moreover, while this Court has never considered the precise issue involved here, it did analyze the legislative history of Section 271 in *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476 (1964), and the court of appeals acknowledges that the opinions in that case "probably cut against" its interpretation (Pet. App. A-46).

c. As the court of appeals also recognized (Pet. App. A-43 n.27), allowance of the patent misuse defense in situations like this would harmonize patent and antitrust policies in a salutary way. Allowance of the defense permits the patentee to benefit from his invention both through the sale of the nonstaple article and through the receipt of reasonable royalties on his patent; it also permits him in appropriate circumstances to enforce his patent against a party that is not directly infringing but only contributing to infringement. At the same time, recognition of the defense benefits the public by allowing the competitive process to operate in the market for the unpatented product. This competition provides an additional incentive for firms to find more efficient means of production and distribution, and an incentive to find new applications for the unpatented product.[5]

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[4]The district court relied primarily on comments in debate on the Senate floor by Senators responsible for the legislation (Pet. App. A-66), while the court of appeals relied primarily on comments of two witnesses who testified before the relevant congressional subcommittees (Pet. App. A-33 to A-38). Under traditional canons of construction, the Senators' views carry more weight. *McCaughn* v. *Hershey Chocolate Co.*, 283 U.S. 488, 493-494 (1931).

[5]In addition, recognition of the defense in situations like the instant one tends to limit the benefit of the patent to the statutory term, since the licensed sellers are likely to be in an advantageous position to utilize the patented process when the patent expires.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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DECEMBER 1979

DOJ-1979-12

MOTION FILED
NOV 27 1979

79-669

IN THE

Supreme Court of the United States

OCTOBER TERM 1979

No. [redacted]

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION,
CRYSTAL CHEMICAL COMPANY,
AND HELENA CHEMICAL COMPANY,

Petitioners,

v.

ROHM AND HAAS COMPANY,

Respondent.

MOTION FOR LEAVE TO FILE BRIEF AND ATTACHED BRIEF ON BEHALF OF THE AMERICAN RICE GROWERS EXCHANGE AS AMICUS CURIAE

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IN THE

Supreme Court of the United States

OCTOBER TERM 1979

No. 79,699

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION,
CRYSTAL CHEMICAL COMPANY,
AND HELENA CHEMICAL COMPANY,

Petitioners,

v.

ROHM AND HAAS COMPANY,

Respondent.

MOTION FOR LEAVE TO FILE BRIEF AND ATTACHED BRIEF ON BEHALF OF THE AMERICAN RICE GROWERS EXCHANGE AS AMICUS CURIAE

The American Rice Growers Exchange ("ARGE") respectfully moves this Court, pursuant to Rule 42 of the Rules of the Supreme Court of the United States, for leave to file the attached brief as *amicus curiae* in the above-captioned case.

Counsel for Petitioners has consented to the filing of the attached brief. The consent of the Respondent was requested but refused.

The ARGE is an organization of agricultural cooperative associations representing the grain producers in and around

seven cities in Southwest Louisiana[1] and nine cities in Southeast Texas.[2] From its inception, ARGE has had as one of its primary objectives, and has been active in, the promotion of more efficient, profitable and successful production of rice and other agricultural products by its members, the producer cooperatives. In this regard, ARGE's functions include (1) serving as a clearinghouse for the collection and dissemination of agricultural information helpful to its members; (2) providing a forum for the exchange of ideas between and among its members; and most importantly, (3) supplying to the farmers of the producer cooperatives the fertilizers, seeds and agricultural chemicals, including pesticides, required to increase crop yields and improve product quality.

The ARGE has a keen interest in obtaining for its member cooperative associations and, ultimately, the farmers comprising the cooperative associations, the optimum quantity, quality and value of goods and services necessary to the continued and increasing success of their agricultural endeavors. As shown in the attached brief, the opinion of the Court below, if allowed to stand, goes far in thwarting this interest and, additionally, has potential adverse consequences for the public, as consumers of agricultural products, and the general business community.

The circumstances of this case provide an excellent opportunity for this Court to decide an important and complex question of law having an impact on the agricultural industry and others that extends far beyond the interests of the parties. ARGE urges, therefore, that the Court take advantage of this opportunity by granting the Petitioners'

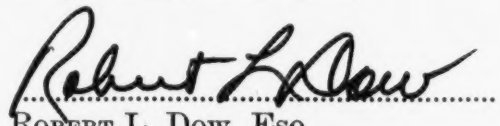
---

[1] Abbeyville, Elton, Iowa, Thornwell, Fenton, Holmwood, Welsh

[2] Beaumont, Devers, Garwood, Anahuac, Daton, Eagle Lake, Katy, Danevany, Richmond

request to issue a writ of certiorari to review the judgment and opinion of the Fifth Circuit Court of Appeals.

Respectfully submitted,



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ROHM AND HAAS COMPANY

Respondent.

BRIEF FOR THE AMERICAN RICE GROWERS EXCHANGE AS AMICUS CURIAE

INTEREST OF AMICUS

The American Rice Growers Exchange ("ARGE"), as set forth in the foregoing Motion, is an organization of agricultural cooperative associations devoted primarily to the promotion of increased efficiency and profitability in the production of rice and other agricultural products by its members. ARGE provides its member associations, and the farmers comprising them, with many of the goods and services required by them in the successful carrying on of their businesses. Foremost among the goods supplied by ARGE are the fertilizers, seeds, and agricultural chemicals, including pesticides, so vital to the attainment of higher

crop yields and improved product quality in the race to keep pace with the ever-increasing demand for food.

The product at the heart of the present dispute, propanil, is a key weapon in the farmer's arsenal against pests and, as such, has been offered by ARGE to its members for nearly twenty years. The propanil distributed by ARGE includes that manufactured by the Petitioners herein.

The opinion of the Court below, in permitting Respondent to monopolize the sale of unpatented propanil for use in its patented method, greatly disturbs ARGE. As set forth below, this opinion will have serious adverse economic consequences for ARGE, its member associations and individual farmers, as well as for the consuming public and the business community as a whole.

ARGUMENT

Perhaps the most immediate and direct adverse effect of the decision below is the unwarranted increase in the cost of doing business that will be experienced by the rice-producing farmers both within ARGE and elsewhere. Since the Fifth Circuit's decision grants Respondent the exclusive right to sell propanil, Respondent, as a monopolist, will be able to set for propanil an artificially high price, unrelated to any price it could expect to establish for a license to farmers or others strictly under its use patent, and free of the price-moderating effects of competition with potentially licensed producers of propanil such as Petitioners. The artificially high price Respondent will be able to charge for its propanil will result in increased costs and decreased profitability of producing rice. This increase in cost of production will eventually be reflected at the supermarket in increased costs to consumers. Decreasing the profitability of producing rice also acts as a disincentive to further production which, of course, will tend to diminish food supplies in the face of increasing worldwide demand.

The decision below, in authorizing Respondent to prevent anyone else from selling propanil for so long as it chooses during the life of its use patent, forecloses ARGE and its members from doing business how and with whom it chooses with regard to a product which, according to the courts, is not itself worthy of patent protection. ARGE has been engaged with Petitioners for many years in a mutually satisfying business relationship in the supply of propanil by Petitioners to local rice producers. Petitioners, as locally based manufacturers and distributors of propanil, have become acutely aware of and attuned to the particularized pesticide needs of local rice producers, and have demonstrated a desire and ability time and again to meet those needs. This mutually satisfying and long-standing business relationship between ARGE, its members and Petitioners was, for the most part, established prior to the issuance of Respondent's use patent, and certainly long prior to the decision below which, if allowed to stand, will greatly injure that relationship. ARGE does not wish to imply that it does not or will not deal with Respondent in the supply of propanil to its members, but only that the decision below removes any element of choice on the part of ARGE, and the advantages of competition among suppliers.

It is also apparent that by placing the means of supply of a vital product such as propanil in the hands of but a single seller such as Respondent, there is an inherent danger of that single seller's being unable to meet the demand for that product where, when and as it arises. An interruption of supply from that single seller, for whatever reason, could prove disastrous to the buyers

who are relying on that supply, especially in the agricultural industry where timing in application of fertilizers, pesticides or other chemicals is critical. By allowing one or more local licensees to participate in the sale and distribution of that vital product, the danger of shortfall in supply is greatly reduced.

ARGE believes that the Fifth Circuit's decision in favor of Respondent provides disincentives for research and development in the chemical industry at least as great as any which might arise by reason of a decision in favor of Petitioners. By foreclosing the market for an unpatented compound to all but the holder of a use patent for that compound, at least as long as no other substantial non-infringing use is apparent, there is no incentive for anyone but the patentee to develop innovative, more efficient and less costly processes for manufacturing that compound, or improved formulations of that compound. Petitioners have already developed new and less costly methods of producing propanil, and an improved formulation which lessens the chance of injuring rice, but as a result of the opinion below will be prevented from utilizing them.

According to Respondent, direct user licensing of its patent is impractical, and implied licensing of users through purchase of propanil from it is the only practical method by which it can obtain the value of its patent. There are other avenues, however, open to it in addition to a license to sell propanil as requested by Petitioners but refused by Respondent. Direct use licensing of centralized organizations such as ARGE or its member cooperatives, with royalties based on subscriptions by the individual farmers, is certainly feasible. Likewise, licensing of ARGE to supply to its customers propanil manufactured by others than Respondent is clearly feasible. Respondent does not suffer from want of methods by which it may exploit its patent.

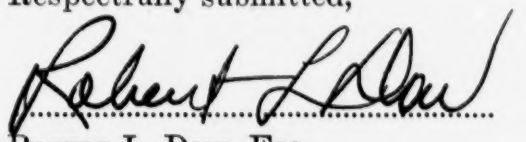
Finally, there is no clear test under the patent laws of whether or when a product sold for use in conjunction with a patented machine or method is or becomes a "staple" or a "non-staple," or when and under what circumstances a use is "substantial" and "non-infringing." Armed with the decision of the Court below, in cases of doubt as to the staple-non-staple nature of goods, an aggressive patentee can use his patent to acquire an unwarranted monopoly over goods which are, in fact, staples, which were never intended to be embraced in any manner within the patent grant. When faced with the threat of an infringement suit, purchasers of the goods in question will be forced to buy from the patentee, to the exclusion of other lawful sellers. This threat of unwarranted monopoly extends not only to goods used in conjunction with patented methods, but also to goods used in conjunction with patented machines. This threat alone would appear to be sufficient reason for this Court to grant, at this time, the review requested by Petitioners.

CONCLUSION

The decision of the Fifth Circuit Court of Appeals will have an adverse economic impact on the agricultural industry, the consuming public and the business community that extends beyond the interests of the parties to this case. The decision will cause an unwarranted increase in the cost of producing rice, will disrupt long-standing business relationships in the agricultural industry in Texas, Louisiana and elsewhere, and will lead to extensions of patent monopolies to products never intended by Congress to be embraced within the patent grant. The decision involves a complex question of law which should be decided by this Court.

The petition should be granted.

Respectfully submitted,



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MOTION FILED
DEC 13 1979

79-6691

IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

No. [redacted]

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION,
CRYSTAL CHEMICAL COMPANY,
AND HELENA CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

MOTION FOR LEAVE TO FILE BRIEF AND ATTACHED BRIEF ON BEHALF OF THE PESTICIDE PRODUCERS ASSOCIATION AS *AMICUS CURIAE*

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

No. 79-699

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION,
CRYSTAL CHEMICAL COMPANY,
AND HELENA CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

MOTION FOR LEAVE TO FILE BRIEF AND ATTACHED BRIEF ON BEHALF OF THE PESTICIDE PRODUCERS ASSOCIATION AS *AMICUS CURIAE*

The Pesticide Producers Association (PPA) respectfully moves this Court, pursuant to Rule 42 of the Rules of the Supreme Court of the United States, for leave t file the attached brief as *amicus curiae* in the above-captioned case.

Counsel for Petitioners has consented to the filing of the attached brief. Solicitation of consent of the Respondent was deemed futile as it has refused the request of the other organizations similarly situated.

The PPA is an organization of agricultural chemical formulators representing pesticide producers in and around the United States. From its inception, PPA

has had as one of its primary objectives, and has been active in, the promotion of formulators' positions on legislative and administrative actions which affect their business. In this regard, PPA's functions include (1) serving as a clearinghouse for the collection and dissemination of agricultural pesticide information helpful to its members; and (2) providing a forum for the exchange of ideas between and among its members.

The PPA has a keen interest in representing its members' rights. As shown in the attached brief, the opinion of the Court below, if allowed to stand, goes far in thwarting this interest and, additionally, has potential adverse consequences for the public as consumers of pesticide products, and the general business community.

The circumstances of this case provide an excellent opportunity for this Court to decide an important and complex question of law having an impact on the agricultural pesticide industry—and other extents far beyond the interests of the parties. PPA urges, therefore, that the Court take advantage of this opportunity by granting the Petitioners' request to issue a Writ of Certiorari to review the judgment and opinion of the Fifth Circuit Court of Appeals.

Respectfully submitted,

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Respondent.

BRIEF ON BEHALF OF THE PESTICIDE PRODUCERS ASSOCIATION AS *AMICUS CURIAE*

INTEREST OF AMICUS CURIAE

The Pesticide Producers Association (the Association) is a non-profit membership corporation organized under the laws of the District of Columbia. The Association is comprised of twenty-three (23) companies, all of whom are producers, formulators, distributors, or marketers of pesticides. The term "pesticides" comprises agricultural chemicals such as herbicides, fungicides, insecticides and plant growth regulators.

The members of the Association are primarily small to medium size manufacturers, distributors and marketers of pesticides. These companies provide a valuable service to the agricultural community by supplying adequate quantities of many unpatented pesticides at relatively low prices. They are able to supply such chemicals at lower prices than larger, more complex corporations because their lower overhead and other expenses allow sales at a lower gross profit margin. Few of the members of the Association have extensive research and development organizations, so they are seldom able to exert monopolistic control through patents on their products. As a result, these companies exist almost entirely for the marketing of pesticides which are not protected by patent.

The interest of the members of this Association therefore transcends the interest of the parties to this action. The issue presented by the present Petition is whether the owner of a patent on a method for using an unpatented chemical has the right to retain for itself, to the exclusion of all others, the marketing of that unpatented chemical. If the decision of the Fifth Circuit Court of Appeals is allowed to stand, this may have a serious effect in the future on the right of member companies of the Association to market unpatented chemicals. Certainly the rule announced by the Fifth Circuit Court of Appeals will have a significant and adverse effect upon the right of these companies to add new products to their present lines.

A major problem which will occur is that whenever any patent is issued covering a method of use of a chemical, members of this Association will be unable to determine from the patent itself whether they have a right to manufacture and market the chemical. Under

the rule of the Fifth Circuit, this can only be determined by first ascertaining whether there is any other substantial use for the chemical. It will be apparent that obtaining the answer to this question can, in and of itself, be a long and costly process. Thus the decision of the Fifth Circuit Court of Appeals could provide an effective monopoly even over staple materials which are capable of substantial non-infringing uses.

REASONS FOR GRANTING THE WRIT

It is apparent that the Question presented in the Petition for Writ of Certiorari has significant public interest implications affecting far more businesses and people than the litigants or even the members of this Association.

The Constitution authorized and Congress designed the Patent System as an incentive to innovation that would give individuals and firms, for a limited period of time, the exclusive right to the value of their inventions. Under the Patent System such exclusive right may be granted to anyone who discovers "any new and useful process, machine, manufacture, or composition of matter" (35 U.S.C. § 101). Thus, an inventor of a new and useful chemical may be entitled to a composition of matter patent, and the inventor of a new and useful process may be entitled to a process patent. However, the law does not allow an inventor of a process a patent on the chemical used in that process. Nor, in the absence of a clear indication of Congressional intention, should a patent on that process be construed to give an exclusive right to market the chemical.

The logic of this conclusion becomes most apparent under the facts of the present case, in which the patent

on the chemical propanil was granted to Monsanto Company as a result of Monsanto's showing of propanil's "unusual and valuable herbicidal activity". *Monsanto Company* v. *Rohm and Haas Company,* 456 F.2d 592, 596 (3 Cir. 1971). Having been successful in the invalidation of that patent on the composition of matter, Rohm and Haas here seeks substantially the same protection under its patent on the process in which that same propanil is used as a herbicide.

Such an expanded monopoly is not justifiable on the ground that it would be impractical for Rohm and Haas to profit from its patent in any other way. This argument was decisively rejected by this Court in *B. B. Chemical Co.* v. *Ellis,* 314 U.S. 495, 498 (1941), and in *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661, 666 (1944). As the Court stated in B. B. Chemical:

> The patent monopoly is not enlarged by reason of the fact that it would be more convenient to the patentee to have it so, or because he cannot avail himself of its benefits within the limits of the grant. (314 U.S. at 498.)

In any event, there are various ways that inventors of processes for using unpatented chemicals may profit, and thereby recoup their investment in the development of those new processes. Thus such inventors may practice the patented processes themselves, or they may license others to do so and obtain a royalty. They can market the unpatented chemicals used in the practice of the patented processes and include an expressed or an implied license with the purchase of the chemicals. However, for the reasons stated in the Petition for Writ of Certiorari, such patent owners should not

be allowed to use these rights in such a way as to monopolize the unpatented chemicals.

Even though the decision of the Fifth Circuit Court of Appeals is contrary to numerous pronouncements of this Court, it will be relied upon by many patentees of process and combination inventions as approving their monopolization of materials and elements used in their inventions, because no previous decision of this Court has specifically dealt with the effect of 35 U.S.C. § 271(d) on the patent misuse doctrine. Those who compete with these patentees need to have this question answered at this time, before they risk capital investment, expensive infringement suits and possible injunction and damages assessment. A failure to deal with this issue now may mean that such investments will not be made, so these patentees will have their monopolies by default.

CONCLUSION

For the reasons stated, the Petition should be granted.

Respectfully submitted,

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Supreme Court, U. S.
FILED
FEB 6 1980
MICHAEL RODAK, JR., CLERK

APPENDIX

IN THE

Supreme Court of the United States

OCTOBER TERM 1979

No. 79-669

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION AND
CRYSTAL CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

PETITION FOR CERTIORARI
FILED OCTOBER 24, 1979
CERTIORARI GRANTED JANUARY 7, 1980

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SEE PROTECTIVE ORDER FILED 11-15-74.

CIVIL DOCKET — JURY REQUESTED — 74-H-790

UNITED STATES DISTRICT COURT

Jury demand date: Deft. Helena: 7-23-74 Defts. Dawson Chemical Co., Crystal Mfg. Corp., Crystal Chemical Co.: 8-2-74

CARL O. BUE, JR.

C. Form No. 106A Rev.

TITLE OF CASE	ATTORNEYS
ROHM AND HAAS COMPANY VS. DAWSON CHEMICAL COMPANY, INC., CRYSTAL MANUFACTURING CORP., KRYSTAL CHEMICAL CO., INC., and HELENA CHEMICAL COMPANY	For plaintiff: James C. Winters CRAIN, WINTERS, DEATON, JAMES & BRIGGS 3300 Two Houston Center Houston, Texas 77002 654-1616 Dawson Chem. Co.; Crystal Mfg. Corp.; For defendant Crystal Chemical: John L. McConn, Jr. BUTLER, BINION, RICE, COOK & KNAPP 1100 Esperson Buildings Houston, Texas 77002 224-6711, 288 Helena Chemical Co.: B. R. Pravel PRAVEL AND WILSON 2010 Marathon Bldg. Houston, Texas 77002 224-2020

STATISTICAL RECORD	COSTS	DATE	NAME OR RECEIPT NO.	REC.	DISB.
S. 5 mailed	Clerk	5-11	CHDC&B	15 00	
		6-14-74	C.D 1-35		15 00
S. 6 mailed	Marshal	12/16/76	#15537	N.A. 5.00	
sis of Action: Injunction declaratory judgment; tent infringement, USC 1400(b)	Docket fee	12/23/76	#15639	N.A. 5.00	
rtion arose at:	Witness fees				—
	Depositions				

74-H-790

JURY REQUESTED

NORMAN W. BLACK

DATE	PROCEEDINGS	Date Of Judgment
6-11-74	ORIGINAL COMPLAINT, filed. No summons copies available at this time	1.
6-14-74	Summons issued on 4 defts.	
6-14-74	Pltf.'s REQUEST to Defts. FOR PRODUCTION OF DOCUMENTS (First Request), filed.	2
6-14-74	Pltf.'s INTERROGATORIES to Defts. (First Set), filed.	3
6-24-74	Pltf.'s FIRST AMENDED AND SUPPLEMENTAL COMPLAINT, filed. Summons issued (4) on defts.	
7- 1-74	Deft. Crystal Chemical Co.'s REQUEST to Pltf. FOR PRODUCTION of Documents (First Request), filed.	5
7- 1-74	Deft. Crystal Chemical Co.'s INTERROGATORIES to Pltf., (First Set), filed.	6
7- 2-74	ANSWER AND COUNTERCLAIM of Dawson Chemical Co., Crystal Manufacturing Corp. and Crystal Chemical Co., filed.	
7- 9-74	STIPULATION, Deft. Helena Chemical Co. shall answer, move or otherwise plead to the First Amended and Supplemental Complaint by 7-23-74, filed.	8
7-10-74	Return of Summons on the following, filed:	
	Dawson Chemical Co. thru Roy Dawson, returned unexecuted, Dawson deceased	9
	Dawson Chemical Co. thru Roy Dawson, served 6-17-74 thru Mr. Vardeman	10
	Crystal Mfg. Corp. thru Joe C. Eller, served 6-17-74 thru Mr. Vardeman	11
	Helena Chemical Co. served 6-19-74 thru C. T. Corp. System	12
	Crystal Chemical Co. thru Joe Eller, served 6-21-74 thru Mr. Vardeman	13
	Crystal Chemical Co. thru Joe Eller, served 6-27-74 (am. comp.)	14
	Crystal Mfg. Corp. thru Joe Eller, served 6-27-74 (am. comp.)	15
	Helena Chemical Co. served 6-28-74 thru C. T. Corp. System (am. comp.)	16
7-17-74	FIRST AMENDED ANSWER AND COUNTERCLAIM of Dawson Chemical Co., Crystal Manufacturing Corp. and Crystal Chemical Co., filed.	
7-19-74	Pltf.'s REQUEST FOR PRODUCTION OF DOCUMENTS (SECOND REQUEST) to Defts. Dawson Chemical Co., Crystal Manufacturing Corp. and Crystal Chemical Co., filed.	18
7-19-74	Pltf.'s INTERROGATORIES to Defts. Dawson Chemical Co., Crystal Manufacturing Corp. and Crystal Chemical Co. (SECOND SET), filed.	19
7-23-74	ANSWER and COUNTERCLAIMS of Deft. Helena Chemical Co. w/JURY DEMAND, filed.	20
7-25-74	Pltf.'s REPLY to Counterclaim of Deft. Crystal Chemical Co., filed.	21
8- 1-74	STIPULATION, Pltf. and Defts. agree that the time for answering, objecting or otherwise pleading to each of the following is extended for 30 days, filed: Pltf.'s Request to Defts. for Production of Documents (1st Request) Pltf.'s Interrogatories to Defts. (1st Request) Interrogatories of Crystal Chemical Co. to Pltf. (1st Set) Crystal Chemical Co.'s Request to Pltf. for Production of Documents (1st Request) (Entry continued to top of next page)	

CA 74-H-790 Carl O. Bue, Jr.

D. C. 110A Rev. Civil Docket Continuation NORMAN W.

DATE	PROCEEDINGS	D Jud
	Entry continued from previous page:	
8-1-74	Pltf.'s Request for Production of Documents (2nd Request) Pltf.'s Interrogatories to Defts. Dawson Chemical Co., Crystal Manufacturing Corp. and Crystal Chemical Co. (2nd Set)	22
8-2-74	Defts. Dawson Chemical Co., Crystal Manufacturing Corp. and Crystal Chemical Co. DEMAND FOR JURY TRIAL, filed.	23
8- 9-74	Pltf.'s INTERROGATORIES to Deft. Helena Chemical Co. (3rd Set), filed	24
8- 9-74	Pltf.'s REQUEST FOR PRODUCTION OF DOCUMENTS (3rd Request) to Deft. Helena Chemical Co., filed.	25
8-13-74	Pltf.'s REPLY to COUNTERCLAIMS of Helena Chemical Co., filed.	
9- 4-74	STIPULATION, Pltf. and Defts. stipulate that the time for answering, objecting or otherwise pleading to each of the following is extended to and including 10-15-74, filed: Pltf.'s Request to Defts. for production of documents (1st Req.) Pltf.'s Interrogatories to Defts. (1st Req.) Interrogatories of Crystal Chemical to Pltf. (1st Set) Crystal Chemical Co.'s Request to Pltf. for Production of Documents (1st Req.) Pltf.'s Request for Production of Documents (2nd Req.) Pltf.'s Interrogatories to Defts. Dawson Chemical Co., Crystal Mfg. Corp. and Crystal Chemical Co. (2nd Set) Pltf.'s Interrogatories to Deft. Helena Chemical Co. (3rd Set) Pltf.'s Request for Production of Documents (3rd Req.)	27
10-17-74	ANSWERS by Deft. Helena Chemical Co. to Pltf.'s INTERROGATORIES (FIRST SET), filed.	28
10-17-74	ANSWERS by Deft. Helena Chemical Co. to Pltf.'s INTERROGATORIES (THIRD SET), filed.	29
10-17-74	ANSWERS by Defts. Dawson Chemical Co., Crystal Manufacturing Corp., and Crystal Chemical Co. to Pltf.'s INTERROGATORIES to Defts. (FIRST SET), filed.	30
10-17-74	ANSWERS to Pltf.'s INTERROGATORIES to Defts. Dawson Chemical Co., Crystal Manufacturing Corp. and Crystal Chemical Co. (SECOND SET), filed.	31
10-18-74	Pltf.'s NOTICE of Taking Depositions to Defts. Dawson Chemical Co., Crystal Chemical Co. and Crystal Manufacturing Corp. thru Joe C. Eller, President and various other unnamed officers on 11-19-74, filed.	32
10-18-74	Pltf.'s NOTICE of Taking Depositions to Deft. Helena Chemical Co. thru Jerry A. Williams, J. C. Blue and various other unnamed officers on 11-21-74, filed.	33
10-18-74	Pltf.'s RESPONSE to Deft. Crystal Chemical Co.'s Request for Production of Documents (First Request), filed.	34
10-18-74	Pltf.'s RESPONSE to Deft. Crystal Chemical Co.'s Interrogatories (First Set), filed.	35
10-29-74	Deft. Helena Chemical Co.'s RESPONSE to Pltf.'s Requests for Documents (First Set) and (Second Set), filed.	36

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CARL O. BUE, JR.

NORMAN W. BLACK

DATE	PROCEEDINGS	Date C Judgme
10-31-74	STIPULATION by all parties, filed.	37
10-31-74	Pltf. AMENDED NOTICE FOR TAKING OF DEPOSITIONS of deft. Helena Chemical Co., filed.	38
10-31-74	PROCEDURAL STIPULATION by all parties, filed.	39
11-11-74	Defts. Dawson Chemical Co., Inc., Crystal Manufacturing Corp., and Crystal Chemical Co., Inc. MOTION FOR PROTECTIVE ORDER, filed. M/D: ~~11-25-74~~ 12-16-74 (Stipulation filed 11-19-74)	40
11-11-74	Defts. Dawson Chemical Co., Inc., Crystal Manufacturing Corp., and Crystal Chemical Co., Inc. MEMORANDUM in Support of Motion for Protective Order, filed.	41
11-11-74	Defts. Dawson Chemical Co., Crystal Manufacturing Corp.'s and Crystal Chemical Co.'s MOTION FOR SUMMARY JUDGMENT, filed. M/D: ~~11-25-74~~ Oral hearing requested. 12-16-74 (Stip.filed 11-19)	42
11-11-74	Defts. Dawson Chemical Co., Crystal Mfg. Corp.'s and Crystal Chemical Co.'s MEMORANDUM in Support of Motion for Summary Judgment, filed.	43
11-15-74	(COB) PROTECTIVE ORDER, filed. Directions and guidelines given regarding the handling of confidential material to be designated by counsel. Parties ntfd. by copy. pt	44
11-19-74	STIPULATION for Extension of Time, Pltf. has to and including 12-9-74 to respond to Defts. Dawson Chemical Co.'s, Crystal Mfg. Corp.'s and Crystal Chemical Co.'s Motion for Summary Judgment and Motion for Protective Order; Defts. have to and including 12-16-74 to answer Pltf.'s response; oral argument requested, filed.	45
11-22-74	Pltf. Rohm and Haas Co.'s MEMORANDUM IN OPPOSITION to Deft.'s Motion for a Protective Order, filed.	46
11-25-74	Deft. Helena Chemical Co. MOTION FOR SUMMARY JUDGMENT, filed. M/D: 12-9-74	47
11-25-74	Deft. Helena Chemical Co. MOTION FOR PROTECTIVE ORDER, filed. M/D: 12-9-74	48
12- 6-74	Pltf. Rohm and Haas Co.'s OPPOSITION to Deft. Helena Chemical Co.'s Motion for Protective Order, filed.	49
12- 6-74	Pltf. Rohm and Haas Co.'s MOTION FOR SUMMARY JUDGMENT, filed. M/D: 12-16-74 Oral argument requested.	50
12- 6-74	Pltf. Rohm and Haas Co.'s MEMORANDUM in Opposition to Defts.' Motions for Summary Judgment and in Support of Its Own Motion for Summary Judgment, filed.	51
12-16-74	REPLY MEMORANDUM by Defts. Dawson Chemical Co., Crystal Mfg. Corp. and Crystal Chemical Co. in Support of Their Motion for Summary Judgment and in OPPOSITION to Pltf.'s Motion for Summary Judgment, filed.	52
12-30-74	Deft. Helena Chemical Co. MEMORANDUM IN SUPPORT of defts. motions for Summary Judgment and IN OPPOSITION of pltf. motion for summary judgment, filed.	53

DATE	PROCEEDINGS	Da Judg
1- 6-75	Pltf. MEMORANDUM in REPLY to Deft. OPPOSITION to Pltf. Motion for Summary Judgment, filed.	54
1-13-75	SUPPLEMENTAL REPLY MEMORANDUM by Deft. Helena Chemical Co. in support of motion for Summary Judgment by Defts. & in opposition to motions for Summary Judgment by Pltf., filed.	55
6-20-75	Pltf's NOTICE of TAKING DEPOSITION of Deft Helena Chemical Company, on 7-31-75, filed.	56
6-20-75	Pltf's NOTICE of TAKING DEPOSITION of Defts Dawson Chemical Company Crystal Chemical Company and Crystal Manufacturing Corporation on 7-29-75, filed.	57
7- 8-75	MOTION for PROTECTIVE ORDER Quashing Pltf's Notices of Depositions of Deft. Helena Chemical Co., filed. M/D 7-21-75	58
7- 8-75	MEMORANDUM in Support of MOTION for Protective Order Quashing Pltf's Notices of Depositions of Deft. Helena Chemical Co., filed.	59
7-11-75	MOTION to Vacate Pltf. Notice of Taking Depositions; and Alternative Motion to Stay Pltf's Taking of Depositions of Defts. Dawson Chemical Co., Inc., Crystal Manufacturing Corp., and Crystal Chemical Co., Inc., filed. M/D 7-21-75	60
7-21-75	Pltf. RESPONSE to Motion to Vacate Pltf. Notice of Taking Depositions and Alternative Motion to Stay Pltf. Taking of Deposition of Defts. Dawson Chemical Co., Crystal Chemical Co., and Crystal Manufacturing Corp., filed.	61
4-13-76	SUPPLEMENTAL MEMORANDUM of Deft Helena Chemical Co. in Support of Motion for Summary Judgment, filed.	62
4-26-76	Answer to 2nd Suppl. Memo. of Deft Helena Chem. Co., returned to Al Deaton for signature.	
4-26-76	ANSWER of Pltf to SECOND SUPPLEMENTAL MEMORANDUM of Deft Helena Chemical Co., filed.	63
4-29-76	REPLY of Deft Helena Chemical Co. to Pltf's Answer to Second Supplemental Memorandum of Deft Helena Chemical Co., filed.	64
5- 5-76	SUPPLEMENTARY MEMORANDUM of Defts Dawson Chemical Co. and Crystal Chemical Co., on Motion for Summary Judgment, filed.	65
JUL 2 1976	Referred by Order of the Court to the U. S. Magistrate for Consideration and recommended action.	

O V E R

ROHM & HAAS CO., vs DAWSON CHEMICAL CO., et al

CA 74-H-790 CARL O. BUE, JR. [illegible] W. BLACK

DATE	PROCEEDINGS	Date O Judgmt
8-10-76	(COB) MEMORANDUM & OPINION, filed. a/n, rlo 1. Pltf. Motion for partial summary judgment-DENIED 2. Defts. Motions for Partial summary judgment-GRANTED in part & DENIED; 3. Defts. Motions for Protective Orders-DENIED except 4. Deft. Helena's Motion to quash notices of deposition to Jerry A. Williams and J. C. Blue-GRANTED	66
8-26-76	Pltf's NOTICE to Take Depositions Defts Dawson Chemical Co., Crystal Chemical Co., and Crystal Mfg. Corp., on 9-28-76, filed.	67
8-26-76	Pltf's NOTICE to Take Deposition of Deft Helena Chemical Co., on 9-30-76, filed.	68
9- 3-76	MOTION for Reconsideration of the Court's Decision Not to Dismiss Pltf's Complaint of Defts Dawson Chemical Co., Crystal Manufacturing Corp., and Crystal Chemical Co., filed.M/D 9-27-76	69
9- 3-76	MEMORANDUM in Support of Motion for Reconsideration of the Court's Decision Not to Dismiss Pltf's Complaint of Defts Dawson Chemical Co., Crystal Manufacturing Corp., and Crystal Chemical Co., filed.	70
9-13-76	MOTION for Reconsideration of the Court's Decision Not to Dismiss Pltf's Complaint and Alternative Motion for Order for Immediate Appeal Under 28 USC 1292(b), filed. M/D 10-4-76	71
9-13-76	MEMORANDUM in Support of Motion for Reconsideration of the Court's Decision Not to Dismiss Pltf's Complaint and Alternative Motion for Order Under 28 USC 1292(b), filed.	72
9-15-76	MOTION of Deft Helena Chemical Co., for Stay of Depositions Until Resolution of Pending Motions for Reconsideration, filed. M/D 10-4-76	73
9-17-76	Pltf's CROSS-MOTION for an Order Permitting an Immediate Appeal Under 28 USC 1292(b) Without a Stay of Discovery, filed. M/D 10-4-76	74
9-17-76	Pltf's MEMORANDUM in Support of Its Cross-Motion and in Opposition to Defts' Motions for Reconsideration and to Deft Helena Chemical Co's Motion for an Immediate Appeal of the Court's Refusal to Dismiss the Complaint and for a Stay of Discovery, filed.	75

CARL O. BUE, JR.

CIVIL DOCKET CONTINUATION SHEET

PLAINTIFF	DEFENDANT	CA 74-H-790 DOCKET NO.
ROHM & HAAS CO.	DAWSON CHEMICAL CO., et al	PAGE ___ OF ___ PAGES

DATE	NR.	PROCEEDINGS
9-17-76	76	REPLY MEMORANDUM of Defts Dawson Chemical Co., Crystal Mfg. Corp., and Crystal Chemical Co., filed.
11-11-76	77	Pltf's NOTICE to Take Deposition of Defts Dawson Chemical Co., Crystal Chemical Co., and Crystal Manufacturing Corp., on 12-14-76, filed.
11-11-76	78	Pltf's NOTICE to Take Deposition of Deft Helena Chemical Co., on 12-16-76, filed.
11-23-76	79	(COB) MEMORANDUM & ORDER, filed. a/n, rlo 1. Defendants Motion for Reconsideration of the Court's Decision of 8-10-76-GRANTED 2. Plaintiff's cause should be DISMISSED w/o prej. 3. All pending motions-DENIED as moot. 4. This Court's decision of 8-10-76 to decline dismissal (Memo & Opinion 8-10-76)-WITHDRAWN and this memo & order substituted.
1-23-76	89	(COB) FINAL JUDGMENT, filed. a/n, rlo
12-16-76	90	Plaintiff's NOTICE OF APPEAL from the Court's Order entered on November 23, 1976, filed.
12-16-76	91	Plaintiff's COST BOND ON APPEAL (Lawyers Surety Corporation), filed.
12-23-76	92	Joint Notice of Appeal (defendants), filed.
2-29-76	93	Appellant's COST BOND on Appeal (Cash Deposit of $250.00), filed.
1-28-77	94	Record on Appeal consisting of all original papers mailed to Fifth Circuit Court of Appeals.
8-28-79	95	Certified copy of JUDGMENT by Court of Appeals dated 7-30-79 and issued as MANDATE on 8-24-79 Ordering that Judgment of District Court is REVERSED and REMANDED in accordance with Opinion of Court of Appeals and it is further ORDERED that deft-Appellees pay pltf.-Appellant the cost on Appeal, filed.
8-28-79	96	Certified copy of OPINION by Court of Appeals, filed.
8-28-79	97	Bill of Costs by Court of Appeals, filed.
8-28-79		Record on Appeal RETURNED by Court of Appeals.

DC-111A REV. (1/75)

PLAINTIFF	DEFENDANT	CA 74-H-790
ROHM & HAAS CO.	DAWSON CHEMICAL CO., et al	DOCKET NO. ——— PAGE ___ OF ___ PAGES

DATE	NR.	PROCEEDINGS
9- 7-79	98	(COB) ORDER to Disburse Cash Bond for Costs on Appeal, filed. P/n. mac
9-14-79	99	MOTION of pltf-appellant for Bill of Costs in the District Court and 5th Circuit Court of Appeals, filed. mgc
9-14-79	100	BILL OF COSTS, filed. mgc ($1,494.19)
~~9-18-79~~	~~101~~	~~Pltfs MOTION TO AMEND and Supplement the Pltfs First amended and Supplemental Complaint, filed.mgc~~
9-18-79	101	Defts OPPOSITION to Motion for Bill of Costs, filed. mgc DD 9-19-79
9-21-79	102	Pltfs REPLY to Opposition to Motion for Bill of Costs, filed. mgc
9-25-79	103	Pltfs SECOND AMENDED and SUPPLEMENTAL COMPLAINT, filed. mgc
9-25-79	104	(COB) ORDER, filed. Parties ntfd.mgc Re: Pltf Motion for Bill of Costs. 1. Responses due Oct. 22, 1979 2. Additional Responses due Oct. 29, 1979 3. Submission date Nov. 5, 1979
9-1-79	105	Notification re: Change of Address for atty in charge in behalf of Helena Chemical Co., filed. mgc
10-10-79	106	SECOND AMENDED ANSWER and COUNTERCLAIM of Dawson Chemical Co., Crystal Manufacturing Corp. and Crystal Chemical Co., filed.mgc
10-12-79	107	SECOND AMENDED ANSWER and COUNTERCLAIM of Helena Chemical Co., filed. mgc
10-22-79	108	Pltfs REPLY to Counterclaim of Dawson Chemical Co., Crystal Manufacturing Corp and Crystal Chemical Co., filed. mgc
10-22-79	109	Defts Dawson Chemical Co, Crystal Chemical Co., and Crystal Manufacturing Co., REQUEST FOR PRODUCTION of Documents, filed. mgc
10-29-79	110	Pltfs REPLY to Second Amended Answer and Counter-Claim of Helena Chemical Co., filed. mgc
11-2-79	111	REQUEST by deft Helena Chemical Co. for Production of Documents, filed. mgc
11-5-79	112	(COB) ORDER following motion conference, filed. mgc Appearances: All Deaton f/pltf. 1. Pltfs Motion for Bill of Costs - GRANTED;($1,425.03) 2. Pltfs counsel only attends. 3. Defts Counsel (Conley) does not oppose. 4. Defts Counsel (Pravel) did not appear.

IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION No. 74-H-790

ROHM AND HAAS COMPANY, a corporation

Plaintiff,

v.

DAWSON CHEMICAL COMPANY, INC., CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, INC., AND HELENA CHEMICAL COMPANY, corporations,

Defendants.

FIRST AMENDED AND SUPPLEMENTAL COMPLAINT

Plaintiff, for its first amended and supplemental complaint against defendants alleges:

1. Plaintiff, Rohm and Haas Company (hereinafter "Rohm and Haas"), is a corporation organized and existing under the laws of the State of Delaware with its principal place of business at Independence Mall West, Philadelphia, Pennsylvania 19105.

2. Defendant, Helena Chemical Company, is a corporation organized and existing under the laws of the State of Arkansas, it is licensed to do business and it is doing business in the State of Texas where it has regular and estab-

lished places of business at El Campo, Conroe and Katy, State of Texas, within this Judicial District.

3. Defendants, Dawson Chemical Company, Inc. and Crystal Manufacturing Corporation are corporations organized and existing under the laws of the State of Texas. Crystal Chemical Company, Inc. is a corporation organized and existing under the laws of the State of Florida and it is licensed to do business and it is doing business in the State of Texas. Dawson Chemical Company, Inc. and Crystal Manufacturing Corporation, on information and belief, are subsidiaries of

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Crystal Chemical Company, Inc. All three of these corporations have regular and established places of business at North Post Oak Road and at Rogerdale Road in the City of Houston, State of Texas and within this Judicial District.

4. On June 11, 1974, United States Patent No. 3,816,092 was duly and legally issued to Harold F. Wilson and Dougal H. McRae for an invention in a method for selectively inhibiting growth of undesirable plants in an area containing growing undesirable plants in an established crop (hereinafter the "Wilson patent"). Rohm and Haas is and has been the sole owner of the Wilson patent since its issuance.

COUNT I

5. This Court has jurisdiction over Count I of the present action because it is a suit for patent infringement arising under the Patent Laws of the United States, 28 U. S. C. § 1338(a); and defendants have regular and established places of business in this Judicial District where they have committed and are committing many of the acts

of infringement hereinafter alleged, 28 U. S. C. § 1400(b).

6. Defendants have heretofore sold and offered for sale the chemical compound 3,4-dichloropropionanilide (hereinafter "propanil") and have actively induced and are continuing to induce purchasers thereof to practice the methods now claimed in the Wilson patent and to proceed with preparations to continue the practice of such infringing activities in the future. On information and belief, defendants have been aware for more than a year of the pendency of the application for the Wilson patent and the presence therein of patentable claims covering the methods of use recommended by defendants to their customers and practiced by said customers pursuant to defendants' recommendations. Notwithstanding the issuance of the Wilson patent and knowledge by defendants of its issuance, defendants have

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continued these activities, within this Judicial District and elsewhere, and purchasers and users of defendants' propanil have directly infringed the Wilson patent and are being urged by defendants to continue such infringing activities. Direct infringement by defendants' customers and users of their propanil pursuant to defendants' recommendations and urgings has occurred within this Judicial District and elsewhere *inter alia* on June 11, 12, 13, 19, 20 and 21, 1974. Defendants are therefore actively inducing others directly to infringe the Wilson patent. Defendants are also contributorily infringing the Wilson patent by selling propanil for use in practicing the patented process, knowing that it constitutes a material part of the invention of the Wilson patent, and is especially made or especially adapted only for the use claimed in the Wilson patent. Said

product is not a staple article or commodity of commerce suitable for substantial non-infringing use.

7. Rohm and Haas has been and will continue to be damaged by defendants' afore-mentioned infringing acts, and said damages are of a continuing and proliferating nature.

COUNT II

8. This Court has jurisdiction over Count II of the present action because it seeks a declaratory judgment to settle an actual controversy between the parties hereto with respect to acts taking place within this Judicial District, 28 U. S. C. §§ 2201 and 2202, and it arises under the Patent Laws of the United States, 28 U. S. C. § 1338(a). Defendants are residents of the Southern District of Texas, 28 U. S. C. § 1391(c).

9. Defendants have heretofore sold propanil together with instructions and recommendations to purchasers and users thereof that it be used solely in the method now

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patented in the Wilson patent. At defendants' urging and with their knowledge, purchasers and users of defendants' propanil practiced the method now claimed in the Wilson patent pursuant to these instructions and recommendations. On information and belief, defendants' aforesaid sales, instructions and recommendations were with the knowledge that Rohm and Haas had pending in the United States Patent Office an allowed claim covering the only use of propanil recommended by defendants to their customers and users with knowledge that the Wilson patent had issued.

10. Defendants now have in their possession, within this Judicial District and elsewhere, substantial quantities

of propanil for sale packaged and labeled with instructions to purchasers and users thereof to employ it in a manner which necessarily infringes the claims of the Wilson patent. Moreover, defendants have made and are now making preparations to manufacture or purchase additional quantities of said material and to advertise and otherwise induce purchasers to employ said material to infringe the Wilson patent. Defendants are offering and intend to continue to offer such propanil for sale. Use of defendants' propanil in the manner recommended by defendants on their labels and instructions would directly infringe the Wilson patent and defendants' intended sales and recommendations would constitute active inducement of infringement of said patent. Such use by defendants' customers and users of their propanil has occurred within this Judicial District and elsewhere *inter alia* on June 11, 12, 13, 19, 20 and 21, 1974. Moreover, sale of defendants' propanil would constitute contributory infringement of the Wilson patent because propanil constitutes a material part of the invention claimed in the

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Wilson patent, propanil is especially made or especially adapted only for use in an infringement of said patent, and propanil is not a staple article or commodity of commerce suitable for substantial non-infringing use.

11. Defendants' proposed and threatened sale of propanil and their proposed and threatened active inducement of infringement and contributory infringement of the Wilson patent by such sale will cause irreparable damage to plaintiff and will continue unless enjoined by this Court.

12. An actual justiciable controversy thus exists between the parties hereto with respect to whether the aforesaid continued sales of propanil and recommendations by defen-

dants will constitute an active inducement of infringement and contributory infringement of the Wilson patent.

WHEREFORE, Rohm and Haas prays for:

AS TO COUNT I

A. A preliminary and final injunction against further infringement of the Wilson patent by defendants and those controlled by or in active concert with them;

B. The costs of this action, and such other relief as the Court may deem just and the circumstances warrant;

AS TO COUNT II

C. A declaration that continued sales of propanil by defendants would constitute an active inducement of infringement and a contributory infringement of the Wilson patent;

D. A preliminary and final injunction to prevent defendants from directly or indirectly participating in any infringement of the Wilson patent; and

E. The costs of this action and such other

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relief as the Court may deem just and the circumstances warrant.

Respectfully submitted,

CRAIN, WINTERS, DEATON, JAMES & BRIGGS

By /s/ JAMES C. WINTERS
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IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS COMPANY, a corporation

Plaintiff,

v.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, AND HELENA CHEMICAL COMPANY, corporations,

Defendants.

FIRST AMENDED ANSWER AND COUNTERCLAIM OF DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION AND CRYSTAL CHEMICAL COMPANY

NOW COME Defendants Dawson Chemical Company, Crystal Manufacturing Corporation, and Crystal Chemical Company, and in answer to the Complaint say:

1. The allegations of paragraph 1 of the Complaint are admitted.

2. These defendants have insufficient knowledge upon which to form a belief as to the allegations of paragraph 2 of the Complaint, and therefore such allegations are denied.

3. The allegations of paragraph 3 of the Complaint are admitted, except that neither Dawson Chemical Company nor Crystal Chemical Company has "Inc." in its corporate name.

4. In answer to the allegations of paragraph 4 of the Complaint, these defendants admit that United States Patent No. 3,816,092 (the "Wilson patent") was issued on June 11, 1974 on the application of Harold F. Wilson and Dougal H. McRae, and that plaintiff Rohm & Haas Company ("Rohm and Haas") is and has been the sole owner of the said patent since its issu-

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ance. Defendants deny that such patent was duly and legally issued, and that it covers an invention.

5. In answer to paragraph 5 of the Complaint, these defendants admit that jurisdiction and venue are proper under the statutes set forth, however these defendants deny that they have committed or are committing any acts of infringement as alleged.

6. These defendants admit that Crystal Chemical Company ("Crystal") has heretofore sold and offered for sale the chemical compound 3, 4-dichloropropionanilide ("propanil") in containers which are marked with instructions for the use of propanil for the control of weeds in rice fields. These defendants further admit that they have been aware for more than a year of the pendency of the application for the Wilson patent and that Rohm and Haas was seeking in such application to patent claims covering methods of use recommended by Crystal to its customers and practiced by said customers pursuant to such recommendation. These defendants further admit that since June 17, 1974, these defendants have known that United States Patent No. 3,816,092 was issued on June 11, 1974. These defendants further admit that after the issuance of the

Wilson patent Crystal is still selling and offering for sale the chemical compound propanil in containers which are marked with instructions for its use to control the growth of weeds in rice fields. Other than as specifically admitted, the allegations of paragraph 6 of the Complaint are denied.

7. The allegations of paragraph 7 of the Complaint are denied.

8. The allegations of paragraph 8 of the Complaint are admitted.

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9. In answer to paragraph 9 of the Complaint these defendants admit that Crystal has sold propanil to purchasers with instructions and recommendations for use in controlling the growth of weeds in rice fields, and that purchasers and users thereof used the propanil in that manner. Defendants further admit that they have been aware for more than a year of the pendency of the application for the Wilson patent and that Rohm and Haas was seeking in such application to patent claims covering methods of use recommended by Crystal to its customers and practiced by said customers pursuant to such recommendations. Defendants further admit that they have known since June 17, 1974 that United States Patent No. 3,816,092 had issued on June 11, 1974. Other than as specifically admitted, the allegations of paragraph 9 of the Complaint are denied.

10. In answer to paragraph 10 of the Complaint, these defendants admit that Crystal now has in its possession, within this judicial district and elsewhere, substantial quantities of propanil for sale packaged and labeled with instructions to purchasers and users thereof to employ it to control the growth of weeds in rice fields. These defendants further admit that Crystal has made and is now mak-

ing preparations to manufacture additional quantities of propanil and to advertise and seek purchasers of said material. These defendants further admit that Crystal is offering and intends to continue to offer such propanil for sale. These defendants further admit that propanil sold by Crystal has been used in this Judicial District since June 11, 1974, but have no knowledge of the special dates of such use. Other than as specifically admitted, the allegations of paragraph 10 of the Complaint are denied.

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11. The allegations of paragraph 11 of the Complaint are denied.

12. The allegations of paragraph 12 of the Complaint are admitted.

13. The Wilson patent is invalid and of no force or effect.

14. Rohm and Haas is estopped to contend that the Wilson patent has such scope that it covers the methods used by customers of Crystal.

15. Propanil is a commodity of commerce suitable for substantial uses which do not infringe the Wilson patent.

16. Neither Dawson Chemical Company nor Crystal Manufacturing Corporation makes, sells or offers to sell propanil in any form or for any purpose.

17. The Wilson patent is unenforceable because Rohm and Haas has misused it, in that Rohm and Haas has sold propanil with an implied license to purchasers of propanil from Rohm and Haas to use the method covered by the claims of the Wilson patent, and at the same time has refused to grant licenses to use the method which will allow licensees to purchase propanil from others, even though propanil itself is unpatented, thereby tying the grant of a

license to the purchase of the unpatented material and attempting to monopolize the market in the unpatented material.

18. The Wilson patent is unenforceable because Rohm and Haas has misused it, in that for at least two years prior to the issue of the Wilson patent representatives of Rohm and Haas coerced distributors into refusing to purchase propanil from anyone but Rohm and Haas by the threat that uncooperative distributors would be cut off from a supply after the patent issued.

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Counterclaims

1. This is an action for violation of the Antitrust Laws of the United States, Title 15 U. S. C. Sections 1, 2 and 14. This court has jurisdiction of the subject matter of this action pursuant to Title 28 U. S. C. Section 1337.

2. For many years prior to the issue of the Wilson patent and continuing to the present, both Rohm and Haas and Crystal have manufactured and sold propanil for use in controlling the growth of weeds in rice fields, a use which Rohm and Haas contends infringes the Wilson patent. Propanil itself is not patented, the patent thereon having been held invalid in litigation in which Rohm and Haas and Crystal were accused of infringement, and having been dedicated to the public by the patent owner, Monsanto Company.

3. No other chemical is known which will effectively compete with propanil in the control of weeds in rice fields, so propanil is in much demand by rice farmers.

4. On information and belief, for two years or more prior to the issue of the Wilson patent representatives of Rohm and Haas told propanil distributors that Rohm and

Haas was going to get a patent on the use of propanil to control weeds in rice, and warned such distributors that after the patent issued Rohm and Haas would favor those distributors who had, prior to the issue of the patent, purchased propanil only from Rohm and Haas and who had refused to purchase from Crystal or other suppliers of propanil. As a result of this coercion, on information and belief some distributors entered into agreement with Rohm and Haas that they would purchase propanil only from Rohm and Haas, even before the Wilson patent issued. On information and belief,

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before Monsanto Company dedicated to the public the patent which covered propanil, some distributors were coerced into agreeing to purchase propanil only from Monsanto or Rohm and Haas. On information and belief, this resulted from an agreement between Monsanto and Rohm and Haas to divide the market in propanil between them, using Monsanto's patent, which was declared invalid, and Rohm and Haas' hoped-for future patent, as a lever to exclude others from the market. As a result of such agreements and actions, Crystal was foreclosed from a substantial share of the market in propanil before the Wilson patent was issued, and is still foreclosed from a substantial share of the market, whereby Crystal has suffered injury and will continue to suffer injury unless such agreements and actions cease.

5. Rohm and Haas has stated to Crystal that it will grant licenses under the Wilson patent only to users who purchase propanil made by Rohm and Haas, and that such licenses extend only to the use of the propanil made by Rohm and Haas. Rohm and Haas refuses to grant licenses under which users will be licensed to practice the patented process with propanil made or supplied by Crystal or other

competitors of Rohm and Haas. Thus, Rohm and Haas has tied the granting of a license under the Wilson patent to the purchase of propanil from Rohm and Haas, has restrained trade in propanil, and has attempted to establish a monopoly in propanil, all of which has caused and will continue to cause injury to Crystal.

6. The total annual retail market in propanil in interstate commerce in the United States is, on information and belief, about $14,000,000.00, of which market Rohm and Haas has about one-half, so that the amount of interstate commerce which is affected by Rohm and Haas' actions is not insubstantial.

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7. Rohm and Haas intends to monopolize the sale of propanil, an unpatented chemical, in the United States, and to utilize its patent on a method of use of propanil to accomplish such monopolization by tying licenses under the patent to sales of propanil. Such acts by Rohm and Haas will, if allowed to continue, substantially eliminate competition and tend to create a monopoly in the sale of propanil, thereby causing substantial injury to Crystal.

8. The aforesaid acts of Rohm and Haas constitute violations of Sections 1 and 2 of the Sherman Act, Title 15 U. S. C. Sections 1 and 2, and Section 3 of the Clayton Act, Title 15 U. S. C. Section 14, for which Crystal should recover damages and an injunction.

WHEREFORE, defendants Dawson Chemical Company, Crystal Manufacturing Corporation, and Crystal Chemical Company pray:

1. That the Complaint herein be dismissed.

2. That the Court decree the Wilson patent to be invalid and unenforceable, and that defendants jointly or singly

have not infringed, induced infringement of, or contributorily infringed said patent.

3. That the Court grant an injunction enjoining Rohm and Haas and any of its privies from further asserting, contending, claiming or alleging that the sale of propanil by any defendant constitutes infringement, inducement of infringement or contributory infringement.

4. That they be awarded their costs and attorneys' fees in this suit and such other and further relief as to this court may seem just and proper.

Defendant Crystal Chemical Company further prays:

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5. That the court decree that Rohm and Haas has entered into agreements in restraint of trade in violation of Section 1 of the Sherman Act, Title 15 U. S. C. Section 1, and award compensatory damages to Crystal for such violation.

6. That the court decree that Rohm and Haas has attempted to monopolize the sale of propanil in the United States in violation of Section 2 of the Sherman Act, Title 15 U. S. C. Section 2, and award compensatory damages to Crystal for such violation.

7. That the court decree that Rohm and Haas is guilty of tying arrangements in violation of Section 3 of the Clayton Act, Title 15 U. S. C. Section 14, and award compensatory damages to Crystal for such violation.

8. That the damages awarded for violations of the Antitrust Laws be trebled.

9. That the court grant an injunction enjoining Rohm and Haas and any of its privies from hereafter performing

or threatening or seeking to perform any of the acts found to be in violation of the Antitrust Laws.

BUTLER, BINION, RICE, COOK & KNAPP

By /s/ JOHN L. McCONN, JR.
John L. McConn, Jr.
Attorney in Charge

NED L. CONLEY
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CERTIFICATE OF SERVICE (OMITTED)

* * * *

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IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS COMPANY, a corporation

Plaintiff,

v.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, AND HELENA CHEMICAL COMPANY, corporations,

Defendants.

REPLY TO COUNTERCLAIM OF CRYSTAL CHEMICAL COMPANY

Defendants have filed two papers entitled "Answer and Counterclaim of Dawson Chemical Company, Crystal Manufacturing Corporation and Crystal Chemical Company" and "First Amended Answer and Counterclaim of Dawson Chemical Company, Crystal Manufacturing Corporation and Crystal Chemical Company". Although so captioned, the allegations of the counterclaim (which is identical in each paper) and its prayers for relief indicated that it was filed only on behalf of Crystal Chemical Company. The following Reply to the Counterclaim is directed to the counterclaim stated in each paper and is based on this understanding.

Plaintiff, Rohm and Haas Company, for its Reply to the

Counterclaim of Crystal Chemical Company (hereafter "Crystal Chemical"):

1. Admits that Crystal Chemical purports to plead an action for violation of the Antitrust Laws, Title 15, U. S. C. Sections 1, 2 and 14 and that this Court has jurisdiction but denies that any such violation has occurred;

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2. Admits the averments of paragraph 2 except that it is without knowledge or information sufficient to form a belief as to the truth of the averment that for many years Crystal has manufactured and sold propanil;

3. Denies the averments of paragraph 3 except that it admits that propanil is in much demand by rice farmers;

4. Denies the averments of paragraph 4;

5. Denies the averments of paragraph 5 except that it admits that it has advised Crystal Chemical and other suppliers of propanil that no license under the Wilson patent is available to them at the present time;

6. It is without knowledge or information sufficient to form a belief as to the truth of the averments of paragraph 6;

7. Denies the averments of paragraph 7;

8. Denies the averments of paragraph 8;

9. Plaintiff's present licensing policy concerning the Wilson patent is expressly sanctioned by the provisions of Title 35 U. S. C. § 271(d).

WHEREFORE, plaintiff denies that Crystal Chemical is entitled to the relief prayed for in the counterclaim, or to any relief, prays that the counterclaim be dismissed

with costs and reasonable attorney fees; and prays that the relief sought in the complaint be granted.

CRAIN, WINTERS, DEATON, JAMES & BRIGGS

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(713) 236-0860

Attorneys-in-Charge for Plaintiff Rohm and Haas Company

Of Counsel:

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• • • •

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IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION No. 74-H-790

ROHM AND HAAS COMPANY, a corporation,

Plaintiff,

v.

DAWSON CHEMICAL COMPANY, INC., CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, INC., AND HELENA CHEMICAL COMPANY, corporations,

Defendants.

ANSWERS BY DEFENDANT HELENA CHEMICAL COMPANY TO PLAINTIFF'S INTERROGATORIES (FIRST SET)

NOW COMES, HELENA CHEMICAL COMPANY and answers Plaintiff's Interrogatories (First Set), as follows, using the same numbers for the answers as for the interrogatories:

* * *

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Interrogatory No. 12: Does defendant deny that is has infringed (whether directly or contributorily or by active inducement) any claim of the Wilson patent? If the answer is other than an unqualified negative, identify the claims defendant admits it has infringed and as to the remainder

of the claims, state the complete basis for the answer given including, without limitation, as to each claim:

(a) identify the composition, product or article made, used, sold or offered for sale by defendant since June 11, 1974 which contains propanil, to which the denial pertains:

(b) quote the precise language in the claim which allegedly does not properly describe the composition, product, or article or does not

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properly describe the method by which the product, composition or article is used and provide the proper description alleged to conform correctly to the composition, product, article or process;

(c) describe any tests or observations conducted by defendant leading to the denial of infringement and describe the circumstances thereof;

(d) identify each document which relates, reflects or refers to the basis for each denial and any tests or observations conducted by or on behalf of defendant which relate to the denial; and

(e) identify the individual(s) who firm concluded there was no infringement and the individual(s) most familiar with the factual basis for the denial.

Answer to Interrogatory No. 12: Since Plaintiff does not contend claims 4, 5 and 7 of the Wilson patent are infringed by Helena, no answer is required as to those claims.

As to claims 1-3, 6 and 8-12, Helena denies infringement.

(a) Helena Brand Propanil-3.

Helena Brand Propanil-4.

(b) Not applicable.

(c) None.

(d) None.

(e) Attorneys for Helena concluded there was no infringement on the basis of the invalidity of the Wilson patent because of Plaintiff's misuse thereof, and other grounds hereinafter set forth.

• • •

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HELENA CHEMICAL
COMPANY

By: /s/ J. Charles Blue
President

STATE OF TENNESSEE
COUNTY OF SHELBY

Notary for J. Charles Blue, President of Helena Chemical Company — stated under oath that the foregoing "Answers by Defendant Helena Chemical Company to Plaintiff's Interrogatories (First Set)" are true and correct to the best of his knowledge.

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CERTIFICATE OF SERVICE (OMITTED)

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IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION No. 74-H-790

ROHM AND HAAS COMPANY a corporation,

Plaintiff,

v.

DAWSON CHEMICAL COMPANY, et al

Defendant

ANSWERS BY DAWSON CHEMICAL COMPANY CRYSTAL MANUFACTURING CORPORATION AND CRYSTAL CHEMICAL COMPANY TO PLAINTIFF'S INTERROGATORIES TO DEFENDANT'S (FIRST SET)

Defendants, Dawson Chemical Company and Crystal Manufacturing Corporation have not since June 11, 1974 made, used, sold or offered for sale any product which contains propanil, nor have they taken part in any of the other acts as to which inquiry is made in the interrogatories. Accordingly the answers of those Defendants are in the negative to each of the interrogatories, and all the answers hereinafter set forth are the answers of Crystal Chemical Company only.

• • •

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20. When did defendant or someone acting in its behalf first learn that Rohm and Haas had pending in the United States Patent Office a patent application containing claims embracing a method of using propanil as a post emergent, selective herbicide?

ANSWER: June, 1968.

21. When did defendant or someone acting in its behalf first learn that Rohm and Haas had pending in the United States Patent Office a patent application containing allowed claims embracing a method of using propanil as a post emergent, selective herbicide?

ANSWER: June, 1968.

22. When did defendant or someone acting in its behalf first learn of United States patent application SN. 96,089 filed March 16, 1961 and the pendency therein of allowed claims embracing a method of using propanil as a post emergent, selective herbicide?

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ANSWER: June, 1968.

• • •

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By s/ .....
Joe C. Eller, President of
Crystal Chemical Company,
Dawson Chemical Company,
and Crystal Manufacturing
Corporation

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IN THE STATE OF TEXAS }
COUNTY OF HARRIS }

BEFORE ME, the undersigned authority on this the 15th day of October, 1974, personally appeared Joe C. Eller, known to me to be the person who signed the foregoing instrument, and, being duly sworn, stated to me that the answers set forth therein are true, to the best of his knowledge and belief.

s/ W. W. VARDEMAN
Notary Public in and for
Harris County, Texas.

CERTIFICATE OF SERVICE

(OMITTED)

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IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS COMPANY, a corporation
Plaintiff,

v.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, AND HELENA CHEMICAL COMPANY, corporations,
Defendants.

PLAINTIFF ROHM AND HAAS COMPANY'S RESPONSE TO DEFENDANT CRYSTAL CHEMICAL COMPANY'S INTERROGATORIES (FIRST SET)

Plaintiff Rohm and Haas Company responds as follows to defendant Crystal Chemical Company's interrogatories (first set), said interrogatories having been modified pursuant to the Procedural Stipulation between the parties:

1. Identify all documents evidencing any agreement between plaintiff and any other person, firm or corporation relating to the marketing of propanil.

2. Identify all documents evidencing any agreement between plaintiff and any distributor, purchaser or user of propanil relating to the marketing of propanil.

3. State whether plaintiff has ever made any oral agreement with anyone, other than its employees, concerning the marketing of propanil, and if so, state whom the agreement

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was with, when it was made, and the names of plaintiff's personnel knowledgeable about such agreements.

Response to Interrogatories 1-3

As presently advised, plaintiff has made no oral agreements concerning the marketing of propanil. In lieu of the identification requested in interrogatories 1-2, the documents will be produced for inspection and copying in accord with the conditions set forth in the concurrently filed response to defendant Crystal Chemical Company's request for production.

4. State whether or not plaintiff is aware of any use for propanil which does not infringe the Wilson patent.

5. If the answer to the preceding interrogatory is other than an unqualified negative, state, as to each such use, the period or periods of time during which propanil was so used, the place where the propanil was so used, and who the individuals were who made such use of propanil and identify the individuals most knowledgeable of the answer to this interrogatory; and identify all documents which relate, reflect or refer to the facts stated in answer to this interrogatory.

Response to Interrogatories 4 and 5

No.

6. State whether since June 11, 1974 anyone in the United States has requested, either orally, in writing, or

by any other means, a license from plaintiff under the Wilson patent.

Response to Interrogatory 6

Yes.

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7. If the answer to the preceding interrogatory is in the affirmative, as to each such request state:

(a) the name of the person who made such a request;

(b) the date of the request;

(c) the type of license which was requested;

(d) the response to such request which was given by plaintiff; and

(e) identify the individuals most knowledgeable of the answers to the foregoing interrogatory subparts and identify all documents which relate, reflect or refer to the facts stated in such answers.

Response to Interrogatory 7

A) On June 18, 1974, Mr. Charles Blue, President of Helena Chemical Company, telephoned Mr. Ronald Cheves, Area Marketing Manager for Agricultural Chemicals at Rohm and Haas, and in the course of this conversation he asked if licenses (type unspecified) under the Wilson patent were available. Mr. Cheves referred Mr. Blue to Connolly, Bove & Lodge. The individuals most knowledgeable are those identified above. The only document known to exist is an internal Connolly, Bove & Lodge memo written by Januar D. Bove, Jr., Esq. on June 18, 1974 which document is deemed privileged by reason of the work product doctrine.

B) On June 18, 1974, Mr. Charles Blue, President of Helena Chemical Company, telephoned trial counsel for plaintiff, Rudolph E. Hutz, Esq. of Connolly, Bove & Lodge, Wilmington, Delaware. In the course of this conversation, Mr. Blue inquired if licenses (type unspecified) were available under the Wilson patent and was advised that at the present time no licenses would be granted. The most knowledgeable individuals are those identified above and the only document known to exist is an internal Connolly, Bove & Lodge memo written by Rudolph E. Hutz, Esq. on June 18, 1974 which document is deemed privileged by reason of the work product doctrine.

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C) On June 19, 1974, Ned L. Conley, Esq., trial counsel for defendants Dawson Chemical Company, Crystal Manufacturing Corporation and Crystal Chemical Company, telephoned trial counsel for plaintiff, Rudolf E. Hutz, Esq. of Connolly, Bove & Lodge, Wilmington, Delaware. In the course of this conversation, Mr. Conley asked if licenses (type unspecified) were available under the Wilson patent and was advised that at the present time no licenses would be offered. The most knowledgeable individuals are those identified above. The only document known to exist is an internal Connolly, Bove & Lodge memo written by Rudolf E. Hutz, Esq. on June 19, 1974 which document is deemed privileged by reason of the work product doctrine.

D) On August 2, 1974, Januar D. Bove, Jr., Esq. and Rudolf E. Hutz, Esq. of Connolly, Bove & Lodge, Wilmington, Delaware, trial counsel for plaintiff, met with Ned L. Conley, Esq. and B. R. Pravel, Esq., trial counsel for defendants. During the meeting, Messrs. Conley and Pravel

mentioned the possibility of a license (type unspecified) under the Wilson patent and were advised that at the present time no licenses were available. The most knowledgeable individuals are those identified above. The only document known to exist is an internal Connolly, Bove & Lodge memo written by Januar D. Bove, Jr., Esq. and Rudolf E. Hutz, Esq. on August 6, 1974 which document is deemed privileged by reason of the work product doctrine.

E) On August 27, 1974, S. Leslie Misrock, Esq. of the firm of Pennie & Edmonds, 330 Madison Avenue, New York, NY made a general inquiry concerning the availability of licenses (type unspecified) under the Wilson patent. The request was directed to George W. F. Simmons, Esq., Assistant Secretary of Rohm and Haas and Manager of the Patent Department. Mr. Simmons responded that at the present time no licenses were available. No documents respecting this request are known to exist. Mr. Misrock is presumed to be the most knowledgeable concerning the request.

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F) On or about September 9, 1974, Rohm and Haas Company received an undated letter purporting to be from John R. Denison of Iowa, LA. The most knowledgeable person about this letter reading:

"Rohm & Haas Company
Agricultural Chemical Division
Independence Mall West
Philadelphia, Pa. 19105

Gentlemen:

I would like to have a license under your U.S. Patent No. 3,816,092 to use Propanil on my rice fields.

Please let me know on what terms you will grant a license.

Very truly yours,

John R. Denison
Rt. 1 Box 34
Iowa, La. 70647"

is believed to be Ned L. Conley, Esq. The only documents known to plaintiff referring to this letter are a) a letter dated September 11, 1974 from Januar D. Bove, Jr., Esq. to J. Fay Hall, Esq., General Counsel of Rohm and Haas and b) an internal memo of Connolly, Bove & Lodge written by Rudolf E. Hutz, Esq. dated September 10, 1974 which documents are deemed privileged under the work product and attorney-client doctrines. On advice of counsel, and because the letter was not a bona fide request for a license — but rather a sham and pretext designed by counsel for defendant Crystal Chemical Company — no response has been or will be made.

8. Identify all agreements between plaintiff and Monsanto Company relating to or arising out of Interference No. 93751 in the United States Patent Office, and identify the

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individual or individuals most knowledgeable about any such agreements and the negotiations leading up to them.

Response to Interrogatory 8

The only agreement between Rohm and Haas and Monsanto relating to or arising out of Interference No. 93,751 is the agreement filed in the United States Patent Office on January 15, 1973 pursuant to 35 U.S.C. §135(c). A

copy will be made available to counsel for defendant Crystal Chemical Company pursuant to the conditions of the concurrently filed response to defendant Crystal Chemical Company's request for documents.

The most knowledgeable individuals concerning the agreement are J. Fay Hall, Esq., General Counsel for Rohm and Haas Company, and Robert J. Whitesell, Vice-President of Rohm and Haas Company.

9. State whether, prior to June 11, 1974, any representative of plaintiff made any statement to any prospective purchaser or user of propanil concerning the expected issue of the Wilson patent.

Response to Interrogatory 9

Yes.

10. Identify each communication between plaintiff and its sales representatives and marketing personnel which refers to uses for propanil.

Response to Interrogatory 10

As presently advised, none.

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11. State whether plaintiff is aware of any proposed use for propanil other than in the method covered by the claims of the Wilson patent; and, if the answer is other than an unqualified negative, state where, when and by whom all such proposals have occurred, and identify all documents which relate, reflect or refer to the facts stated and the persons most knowledgeable of such facts.

Response to Interrogatory 11

No.

12. State whether plaintiff sells propanil in the United States for use by rice growers in the United States.

Response to Interrogatory 12

Yes.

13. If the answer to the preceding interrogatory is in the affirmative, state whether plaintiff recommends such propanil be used by rice growers for controlling the growth of weeds in rice fields.

Response to Interrogatory 13

Yes.

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ROHM AND HAAS COMPANY

By /s/ GEORGE W. F. SIMMONS

STATE OF PENNSYLVANIA }
COUNTY OF PHILADELPHIA } SS.

GEORGE W. F. SIMMONS, being duly sworn, deposes and says that he is Assistant Secretary of the plaintiff, Rohm and Haas Company, in the present action; that the foregoing response to interrogatories are answered by him as an officer of plaintiff; that said responses are based upon information received by him from the records and employees of plaintiff or upon knowledge obtained by him during the term of his employment; that to the best of his knowledge and belief said responses are true and complete.

/s/ GEORGE W. F. SIMMONS

Sworn to and subscribed before me this 14th day of October 1974.

/s/ LILLIAN A. RAGO
Notary Public
LILLIAN A. RAGO
Notary Public, Philadelphia, Philadelphia Co.
My Commission Expires December 14, 1974

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CERTIFICATE OF SERVICE (OMITTED)

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IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS COMPANY, a corporation,
Plaintiff,

v.

DAWSON CHEMICAL COMPANY, INC., CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, INC., AND HELENA CHEMICAL COMPANY, corporations,
Defendants.

STIPULATION

The parties hereto, by and through their respective attorneys, hereby stipulate for all of the purposes of this proceeding only as follows:

1. This Court has jurisdiction of the parties and subject matter, and venue is proper.

2. On June 11, 1974, United States Patent 3,816,092 issued to Harold F. Wilson and Dougal H. McRae (hereinafter the "Wilson patent"). Rohm and Haas Company

(hereinafter "Rohm and Haas") is and has been the sole owner of the Wilson patent since its issuance. The Wilson patent contains the following claims:

"1. A method for selectively inhibiting growth of undesirable plants in an area containing growing undesirable plants in an established crop, which comprises applying to said area 3, 4-dichoropropionanilide at a rate of application which inhibits growth of said undesirable plants and which does not adversely affect the growth of said established crop."

"2. The method according to claim 1 wherein the 3, 4-dichloropropionanilide is applied in a composition comprising 3, 4-dichloropropionanilide and an inert diluent therefor at a rate of between 0.5 and 6 pounds of 3, 4-dichloropropionanilide per acre."

"3. The method according to claim 1 wherein most of the undesirable plants are destroyed by 3, 4-dichloropropionanilide applied thereto without substantial adverse effect on the crop growing therewith."

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"6. The method according to claim 2 wherein the established crop is monocotyledonous."

"8. The method according to claim 2 wherein the undesirable plants include monocotyledonous."

"9. The method according to claim 2 wherein the undesirable plants include dicotyledenous plants."

"10. The method according to claim 2 wherein the established crop is a grain crop."

"11. The method according to claim 2 wherein the undesirable plants include barnyardgrass."

"12. A method for selectively inhibiting the growth of growing, tender, undesirable, annual plants which are susceptible to 3,4-dichloropropionanilide, said undesirable plants growing in an area containing an established monocotyledonous crop which is resistant to 3,4-dichloropropionanilide, which comprises applying to said undesirable plants a composition comprising 3, 4-dichloropropionanilide and an inert carrier therefor at a rate of application which inhibits growth of said undesirable plants and which does not substantially effect the growth of said established monocotyledonous crop."

3. Both before and after June 11, 1974, the issue date of the Wilson patent, defendants have sold formulations containing 3, 4-dichloropropionanilide, which is also known as "propanil". After they were served with the Complaint in this suit, such sales were with knowledge of the Wilson patent. Both before and after June 11, 1974, purchasers of defendants' propanil formulations have carried out in this country the method described on the labels attached hereto as Exhibits 1-6. Defendants knew when they sold their propanil formulations that such formulations would be used by purchasers in carrying out the methods described on those labels. Defendants are continuing and intend to continue the making and/or selling and offering of propanil formulations for sale in this country with the same recommendations and instructions. Defendants, however, contend that the Wilson patent is invalid and unenforceable, and that defendants are not liable as infringers or contributory infringers.

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4. Based upon the representations of defendants that they have recommended the use of their propanil products

only for controiling weeds in rice crops, plaintiff does not charge infringement of either claim 4, 5 or 7 of the Wilson patent.

5. Rohm and Haas makes and sells the chemical compound, 3, 4-dichloropropionanilide, known as propanil, in various formulations in this country, with instructions to use the propanil in carrying out the steps of the Wilson patent in suit 3,816,092. Purchasers of the Rohm and Haas propanil formulations in this country are impliedly licensed by operation of law to use the method of the Wilson patent. Each of defendants have requested a license under the Wilson patent. Rohm and Haas stated in reply to such requests that it has no present intention of granting a license under the Wilson patent to any of defendants or to propanil users, except with purchases of propanil from Rohm and Haas, which have implied licenses by operation of law. To date, Rohm and Haas has not granted a written license to anyone under the Wilson patent, and it does not intend at the present time to grant such a license. Rohm and Haas has never received any payment from its propanil customers who use the Wilson patent method other than the purchase price of the propanil.

6. In a suit by Monsanto Company against Rohm and Haas for patent infringement, Monsanto's Patent 3,382,280 claiming the chemical compound, 3, 4-Dichloropropionanilide *per se,* was held invalid. Propanil and the various formulations of it presently sold by Rohm and Haas are unpatented chemicals.

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7. Defendants represent that the only products containing propanil sold by them, since the issuance of the Wilson patent, are the products described in the six labels

attached hereto and that sales of such propanil products have been made in containers bearing such labels.

PRAVEL & WILSON

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BUTLER, BINION, RICE, COOK & KNAPP

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713-224-6711

Attorneys for Dawson Chemical Company, Inc., Crystal Manufacturing Corporation and Crystal Chemical Company, Inc.

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EXHIBITS 1-6 (OMITTED AND REPRODUCED IN SEPARATE VOLUME)

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IN THE
UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS COMPANY, a corporation,
Plaintiff,

v.

DAWSON CHEMICAL COMPANY, INC., CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, INC., AND HELENA CHEMICAL COMPANY, corporations,
Defendants.

DEFENDANT DAWSON CHEMICAL COMPANY'S CRYSTAL MANUFACTURING CORPORATION'S and CRYSTAL CHEMICAL COMPANY'S MOTION FOR SUMMARY JUDGMENT

Defendants Dawson Chemical Company, Crystal Manufacturing Corporation, and Crystal Chemical Company, hereinafter referred to as Defendant Crystal Chemical Co., move the Court to enter, pursuant to Rule 56 of the Federal Rules of Civil Procedure, a summary judgment in Defendant Crystal Chemical Co. favor dismissing the claims alleged in Count I of the complaint on the ground that there is no genuine issue as to any material fact and that Defendant Crystal Chemical Co. is entitled to judgment as a matter of law.

Defendant Crystal Chemical Co. would show that Plaintiff is the owner of a method patent and grants licenses under said method patent only to purchasers from Plaintiff of the unpatented chemical product used in the practice of Plaintiff's patented method, while at the same time Plaintiff refuses

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to grant licenses to purchasers from Defendant Crystal Chemical Co. of the same unpatented chemical product and sues Defendant Crystal Chemical Co. for contributory infringement seeking injunctive relief to prevent Defendant Crystal Chemical Co. from making and selling the said unpatented chemical product, which acts constitute a scheme and pattern of conduct to extend the economic effect and limited monopoly of Plaintiff's method patent and therefore constitute misuse by Plaintiff of Plaintiff's method patent, which misuse renders Plaintiff's said method patent unenforceable and requires this court to dismiss Plaintiff's Count I and in view of Plaintiff's withdrawal of Count II by the Procedural Stipulation filed in this action on October 31, 1974, requires summary judgment in favor of Defendant Crystal Chemical Co.

This motion is based upon:

(a) The pleadings on file in this action,

(b) Plaintiff Rohm and Haas Company's Response to Defendant Crystal Chemical Company's Interrogatories (First Set),

(c) The agreed to facts set forth in the Stipulation filed in this action on October 30, 1974, and

(d) The attached Memorandum in Support of Defendants Dawson Chemical Company's, Crystal Manu-

facturing Corporation's and Crystal Chemical Company's Motion for Summary Judgment.

In accordance with Local Rule 16F, counsel for the Defendant Crystal Chemical Co. states that they are of the view that oral argument on the foregoing motion is

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desirable and therefore request that this motion be set for oral hearing.

Respectfully submitted,

BUTLER, BINION, RICE, COOK & KNAPP

By /s/ JOHN L. McCONN, JR.
John L. McConn, Jr., Attorney in Charge
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IN THE
UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS COMPANY, a corporation,
Plaintiff,

v.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, AND HELENA CHEMICAL COMPANY, corporations,
Defendants.

PLAINTIFF ROHM AND HAAS COMPANY'S MOTION FOR SUMMARY JUDGMENT

Plaintiff Rohm and Haas Company ("Rohm and Haas") moves the Court to enter a partial summary judgment striking the defense of patent misuse pursuant to Rule 56, F. R. Civ. P. since there is no genuine issue as to any material fact and Rohm and Haas is entitled to such relief as a matter of law.

Specifically, Rohm and Haas moves the Court to strike the defense that United States patent 3,816,092 (the Wilson patent) has been misused and is unenforceable because Rohm and Haas has sold the chemical 3, 4-dichloropropion-anilide (propanil) for use in the process patented by the Wilson patent but has refused to license defendants to sell propanil for such use.

The ground for this motion is that the undisputed facts of record established that propanil is not a staple article or commodity of commerce suitable for substantial noninfringing use. Consequently unlicensed sale of propanil by defendants or others is

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contributory infringement of the Wilson patent as defined by 35 U. S. C. § 271 (c). Rohm and Haas as the patent owner has the right to sell propanil for the patented use and to refuse expressly to license defendants and others to infringe its Wilson patent. Such acts do not constitute patent misuse or illegal extension of monopoly under the controlling case law and statute 35 U. S. C. § 271 (d).

In the alternative, should the Court find that a genuine issue of material fact is raised by Rohm and Haas' main motion, Rohm and Haas moves the Court nonetheless to declare that if at trial propanil is found not to be a staple article or commodity of commerce suitable for substantial noninfringing use, Rohm and Haas' sales of propanil for use in the process patented by the Wilson patent and its refusal expressly to license defendants and others to sell propanil for such use is not patent misuse but is sanctioned under the controlling statute, 35 U. S. C. § 271(d).

Respectfully submitted,

CRAIN, WINTERS, DEATON, JAMES & BRIGGS

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NOTICE OF SUBMISSION

Please take notice that the above Motion for Summary Judgment will be submitted to the Court on Monday, December 16, 1974, at 10:00 A. M. or as soon thereafter as counsel may be heard.

/s/ JAMES C. WINTERS
James C. Winters
Attorney for Plaintiff, Rohm and Haas Company

CERTIFICATE OF SERVICE (OMITTED)

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IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION No. 74-H-790

ROHM AND HAAS COMPANY, a corporation,
Plaintiff,

v.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, AND HELENA CHEMICAL COMPANY, corporations,
Defendants.

REPLY MEMORANDUM BY DEFENDANTS DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, AND CRYSTAL CHEMICAL COMPANY IN SUPPORT OF THEIR MOTION FOR SUMMARY JUDGMENT AND IN OPPOSITION TO PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT

TO THE SAID HONORABLE COURT:

Defendants do not contend that the owner of a method patent must license the patent in order to avoid patent misuse. But if he does choose to license it, he must do so in such a way as to avoid illegal extension of the patent monopoly. When Rohm and Haas sells propanil with an implied license to use the patented method, it has chosen to grant licenses under the patent. Having so chosen, it

is bound to conduct its licensing policy in such a way as to avoid economic control of the unpatented material. By its refusal to grant any licenses under the patent except with its own sales of the unpatented material, Rohm and Haas is attempting to extend the scope of its method patent to a monopoly over the unpatented material. Under the authorities this constitutes misuse of the patent.

Rohm and Haas ignores, in its argument that it is only doing what is permitted by 35 U.S.C. 271(d), the fact that it is

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doing one thing is not mentioned anywhere in 271(d): it is tying the grant of a license under its patent to the purchase of the unpatented material. Neither the authorities relied upon by plaintiff nor any other authority condones such activity. To this extent, at least, the doctrine of the *Mercoid* cases (*Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 and 320 U.S. 680, 1944) has continued vitality. At lease the Supreme Court still thinks so. Note that in *United States* v. *Loew's Inc.*, 371 U.S. 38 (1962) the Court cited *Mercoid* and like cases in support of its reiteration of the doctrine that a patentee who utilizes tying arrangements will be denied relief against infringements of its patent (page 46 of 371 U.S.):

> "These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles."

Further, in the Second *Aro* case, *Aro Manufacturing Co.* v. *Convertible Top Co.*, 377 U.S. 476 (1964) the court noted, at page 508, that on the authority of *Mercoid* and

other cases a patentee cannot be allowed to derive its profit, not from the invention on which the law gives it a monopoly, but from the unpatented supplies with which it is used.

More recently in *Zenith Radio Corp.* v. *Hazeltine Research Inc.*, 395 U.S. 100 (1969) the court stated, at page 136:

> "Among other restrictions on him, he [the patentee] may not condition the right to use his patent on the licensee's agreement to purchase, use, or sell, or not to purchase, use, or sell, another article of commerce not within the scope of his patent monopoly".

In the face of such authority plaintiff has retreated to the argument that this case is different because, plaintiff

says, the unpatented material in this case is not a staple article of commerce, so that plaintiff's activities fall within the scope of § 271(d), and that for this reason alone plaintiff should be excused from the attempted monopoly of propanil. For the purpose of this motion we may assume, although defendants do not agree, that propanil is not a staple. However, as will be shown, the court decisions simply do not support plaintiff's view. Defendants are aware of no case in which such activities have been held to be condoned by § 271(d) solely because the monopolized material or article was a non-staple.

Rohm and Haas argues that the activities which were condemned in the *Mercoid* cases are now expressly condoned by the wording of the statute, 35 U.S.C. 271(d). However, it is apparent that the statute falls short of the mark. The statute merely declares that it shall *not* be misuse for a patentee to perform acts, or to license others to

perform acts, which if committed by another would be contributory infringement, and to sue others for contributory infringement. But the essence of the patentee's offense in the *Mercoid* cases was the tying of the license to use the patented combination to the sale of one of the elements. This tying in factor is not excused in 271(d). Furthermore, although several court decisions, including those cited by Rohm and Haas, have intimated that 271(d) did effect some change in the law of misuse as set forth in Mercoid, none of these decisions, not even those cited by Rohm and Haas, has concluded that tying as condemned in *Mercoid* is now excused. As a matter of fact, substantially every court decision which has, since the enactment of 271(d), ruled on a tying situation, has held that such activity constitutes misuse. As stated by the 10th Circuit

Court of Appeals in *McCullough Tool Company* v. *Well Surveys Inc.*, 343 F.2d 381 (1965), at page 406:

> "The law in this area is no longer open to question. It has been held in a long line of patent cases that a patentee who utilizes a so-called 'tying arrangement' will be denied all relief against infringement of his patent." (Citing pre-1952 as well as post-1952 Supreme Court and Courts of Appeal cases).

The *McCullough* case involved the granting of licenses by Well Surveys, Inc. (WSI) under WSI's radioactivity well logging patents, which licenses required the licensees to purchase from WSI the instruments necessary to conduct the patented well logging operations. The 10th Circuit Court of Appeals held that this finding by the lower court establishes the prohibited tying arrangement (page 407). The Court made no distinction between staples and

non-staples, although it seems certain the instruments were not staple items, since they were specifically designed to practice the patented operations.

Summary judgment on the basis of misuse was sought in *Sonobond Corp.* v. *Uthe Technology, Inc.,* 314 F.Supp. 878 (N. D. Calif. 1970), the defendant alleging that plaintiff's licensing policy was such as to induce licensees to buy unpatented components from the patentee. The defendant had been sued for contributory infringement for selling the unpatented component, so that the plaintiff patent owner must have considered the component to be a non-staple. The plaintiff patent owner took the position that Rohm and Haas takes here, that their activity was excused by § 271(d). However, the court held that this statute did not abrogate the doctrine of misuse. Summary judgment was refused because the court found that there was a fact issue as to whether the effect of the licenses was to induce licensees to buy the unpatented component. The parties have stipulated that no such fact issue exists in the present case.

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The argument by Rohm and Haas is similar to that presented to a three judge court in *United States* v. *United States Gypsum Co.,* 134 F. Supp. 69 (D.C. D.C. 1955) reversed on other grounds, *United States Gypsum Co.* v *National Gypsum Co.,* 352 U.S. 457 (1957). In a previous decision by the court, reported at 124 F.Supp. 573 (1954) the court had enjoined prosecution of patent infringement actions by United States Gypsum Company (USG) because of USG's illegal patent licensing practices, such practices having been found to be illegal in a previous Supreme Court decision. USG took the position that §271(d) of Title 35 expressly protects the USG suits

against infringers from any defense of misuse on its part of its patents. The court held that Congress did not intend by 271(d) to give the patentee a protection superior to the broad public policy of the Antitrust Laws, and that USG's misuse was not excused by 271(d). As the court stated, USG was not "otherwise entitled to relief for infringement", as required by 271(d) because of its violation of the Antitrust Laws.

Despite plaintiff's protestations to the contrary, the cases relied upon by defendants in their Memorandum accompanying their Motion are also supportive of the continued vitality of the *Mercoid* rule, insofar as it applies to a fact situation like the present. *National Foam System Inc.* v. *Urquhart,* 202 F.2d 659 (3rd Cir. 1953) concerned a situation where, in addition to granting a license with the purchase of the unpatented material, Urquhart offered a separate license to consumers. However, this separate license was at such a high rate, as compared to the rate available when the unpatented material was purchased from Urquhart, that the patentee was "given Hobson's choice" (page 664). The court held that this had the same effect as not offering any alternative license at all, and that the patentee was therefore

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guilty of misuse for, in effect, granting licenses only with the purchase of the unpatented material.

A similar situation was found to constitute misuse in *Ansul Co.* v. *Uniroyal, Inc.,* 448 F.2d 872 (2nd Cir. 1971). There, as here, the patent claim on the product had been held invalid, and the court stated, in a footnote at page 882, that if Uniroyal wished to avoid the charge of patent misuse it was obligated to license its patented use of the

unpatented product to those who wished to buy the product from other manufacturers.

The case of *Preformed Line Products Co.* v. *Fanner Manufacturing Co.*, 328 F.2d 265 (6th Cir. 1964) did not directly involve the tying of an unpatented product to the granting of a patent license, but instead was concerned with the tying of an unpatented product with a patented product. Thus in order to use the patented product (i.e., obtain a license to use it) it was necessary for the user to buy the unpatented product from the patent owner. The court held that this constituted an illegal tying arrangement, relying upon *Mercoid* and its predecessors.

An analysis of the foregoing cases makes it clear that § 271(d) does in fact excuse certain activities which previously were condemned as misuse under the Mercoid doctrine. Thus, the patent owner can now (1) grant licenses to others to make and sell the unpatented non-staple component of the patented invention, (2) make and sell such components itself, and (3) bring suit against those who without license make and sell the component. However, the patent owner cannot adopt a licensing scheme under which the only way that anyone can get a license is to buy the unpatented component from the patent owner himself.

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Michael D. Nelson, in his article "Mercoid-Type Misuse is Alive", at 56 Journal of the Patent Office Society 134 (1974), a copy of which is attached hereto, has provided an excellent analysis of the precise question presented by the motions now before the court. He concludes that such a licensing plan, wherein a license under a patent is attached to the sale of an unpatented component, is lawful only if an alternative license is provided which would allow the licensee to purchase the unpatented component from an

independent source, the royalties under the alternative license not being unreasonably different from the royalties payable with the purchase of the component from the patent owner, and there being no discrimination between licensees which would tend to restrain trade of any unpatented product.

Plaintiff cites only two district court cases which it considers as authority for a contrary rule. However, plaintiff misconstrues both of these cases. In *Sola Electric Co.* v. *General Electric*, 146 F.Supp. 625 (Dist. Ill. 1956) the patentee did, notwithstanding plaintiff's statement to the contrary, grant licenses to other suppliers of the unpatented product, so that purchasers were not obligated to buy the unpatented component solely from the patentee in order to obtain a license. See pages 646 and 647. If Rohm and Haas would agree to grant such licenses, this case would become moot.

In *Harte and Co. Inc.* v. *L. E. Carpenter and Co.*, 138 U.S.P.Q. 578 (S.D.N.Y. 1963) the court's conclusion that there was no misuse resulted from the finding that the requirement that the rollers be purchased from the patent owner was due to the patent owner's skills and experience in the design field, and not to his ownership of the patent (page 584). There is no contention here that Rohm and Haas' propanil is any better than any one else's.

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In the present case the defendants have offered to take a license, and now stand ready to take such a license. However, Rohm and Haas has steadfastly refused to even discuss the granting of a license to defendants or to anyone else unless they also buy the unpatented material from Rohm and Haas. Thus Rohm and Haas has refused to

follow a course of action which has been explicitly recognized as proper use of its patent, and which would be undoubtedly very profitable, since Rohm and Haas would profit from every gallon of propanil sold in the United States, instead of just the propanil which it sells. Instead, Rohm and Haas prefers, for reasons that we can only guess, to seek to monopolize the entire United States market in the unpatented propanil, by tying the sales of propanil to a license under the patent.

It is submitted that neither this scheme, nor any other scheme involving a tying arrangement, is a proper use of a patent. As stated by the Supreme Court in the *United States* v. *Loew's, Inc.*, supra, at page 49 of 371 U.S.:

> "Accomodation between the statutorily dispensed monopoly in the combination of contents in the patented or copyrighted product and the statutory principles of free competition demands that extension of the patent or copyright monopoly by the use of tying agreements be strictly confined. There may be rare circumstances in which the doctrine we have enunciated under Section 1 of the Sherman Act prohibiting tying arrangements involving patented or copyrighted tying products is inapplicable. However, we find it difficult to conceive of such a case, and the present case is clearly not one."

Respectfully submitted,
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Helena Chemical Company

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ATTACHMENT (OMITTED)

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CERTIFICATE OF SERVICE (OMITTED)

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IN THE
UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION No. 74-H-790

ROHM AND HAAS COMPANY, a corporation,
Plaintiff,

v.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, AND HELENA CHEMICAL COMPANY, corporations,
Defendants.

REPLY MEMORANDUM BY DEFENDANT HELENA CHEMICAL COMPANY IN SUPPORT OF THE MOTIONS FOR SUMMARY JUDGMENT BY DEFENDANTS AND IN OPPOSITION TO THE MOTION FOR SUMMARY JUDGMENT BY PLAINTIFF

Defendant Helena Chemical Company joins with the other Defendants in supporting the Motion for Summary Judgment in Favor of Defendants and in opposing the

Motion for Summary Judgment by Plaintiff. To avoid repetition by Defendant Helena Chemical Company with respect to the points already presented to this Court in the "Reply Memorandum" by the other Defendants, Defendant Helena Chemical Company (hereinafter referred to as "Helena") adopts and relies upon the law presented in such "Reply Memorandum". The following is supplemental to such "Reply Memorandum" and is submitted specifically on behalf of Defendant Helena.

A. THE CONTROLLING STIPULATED FACTS

The following are submitted to be the controlling stipulated facts filed in the "STIPULATION" on October 31, 1974:

1. Plaintiff makes and sells the chemical "propanil" which is unpatented (Stipulation, Par. 6).

2. The purchasers of such unpatented chemical from Plaintiff are impliedly licensed to use the method of the Wilson patent (Stipulation, Par. 5).

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3. To date, Plaintiff has not granted a written license to anyone under the Wilson patent, and it does not intend at the present time to grant such a license (Stipulation, Par. 5).

4. Plaintiff does not receive any payment from its propanil customers other than the purchase price of the propanil (Stipulation, Par. 5).

5. Each of the Defendants has requested a license from Plaintiff under the Wilson patent, but Plaintiff has refused to grant such licenses to anyone, except to those customers of Plaintiff's who purchase the unpatented propanil from Plaintiff (Stipulation. Par. 5).

B. PLAINTIFF'S ATTEMPTED MONOPOLY IN THE SALE OF AN UNPATENTED CHEMICAL IS A MISUSE OF ITS PATENT ON THE METHOD

Summary judgment in favor of Defendants is proper in this case because the essential controlling facts are not in dispute, and such facts establish as a matter of law a misuse by Plaintiff which prevents any recovery by Plaintiff with respect to the Wilson patent.

A law note specifically dealing with the legal point involved appeared in the "Harvard Law Review", Volume 66, Pages 909-918 (1953), a copy of which is attached. The Court's attention is particularly directed to pages 916-918 because the analysis there presented pinpoints the error of Plaintiff.

The error in Plaintiff's position is that Plaintiff relies upon 35 U.S.C. 271(d)(1) which states, in substance, that a patent owner is not guilty of misuse when the patent owner derived revenue from an unpatented non-staple component of a patented method or combination. However, Plaintiff fails to recognize that Plaintiff has gone beyond such permissible acts because Plaintiff has attempted to monopolize the sale of the unpatented chemicals by refusing to license any except those who purchase the unpatented chemicals from Plaintiff. Thus, as stated on page 916 of the "Harvard Law Review" article, cited supra:

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> "A monopolistic intent most clearly appears where, as in *Mercoid*, the patentee licenses only those who purchase the part from him."

Clearly, Plaintiff in the present case violates Section 2 of the Sherman Act which states that it is an antitrust violation to "monopolize" or "attempt to monopolize". An

attempt to use the Wilson patent in suit as a lever for a violation of the antitrust laws by seeking to obtain a monopoly in the sale of unpatented propanil is a misuse which is not permitted by 35 U.C.S. 271(d). As further stated in the "Harvard Law Review" article, cited supra, on page 917:

> "Nothing in the new section requires a court to condone explicit restrictions conditioning the issuance of licenses on agreements to purchase components from the patentee or his licensee, nor to sanction the use of contributory infringement suits as instruments to monopolize the non-staple parts market."

It is thus seen that Plaintiff's argument that there is no misuse because the unpatented chemical is a "non-staple" is likewise in error. In fact, unless the unpatented chemical is a "non-staple" (especially adapted for use in the method) there would be no contributory infringement and 35 U.S.C. 271(d) would not even be involved. Plaintiff can not stop anyone from selling non-staples under the contributory infringement doctrine. It is only when non-staples are involved that 35 U.S.C. 271(d) comes into play, so Plaintiff's argument that its misuse is excused on the basis of propanil being a non-staple is a non-sequitur.

Therefore, Plaintiff's attempt to monopolize the sale of the unpatented non-staple propanil (assuming that to be a non-staple as Plaintiff contends) is clearly an attempted illegal extension of the method claims of the Wilson patent in suit, and as such, completely bars Plaintiff from any relief until such misuse has been purged.

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C. SUMMARY

Since there is no genuine issue as to any material fact, and Plaintiff is clearly guilty of a misuse by its attempt to monopolize the sale of unpatented propanil, the motions of Defendants for Summary Judgment should be granted and the motion of Plaintiff for Summary Judgment should be denied.

Respectfully,

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CERTIFICATE OF SERVICE (OMITTED)

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ATTACHMENT (OMITTED)

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IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS COMPANY, a corporation,

Plaintiff,

v.

DAWSON CHEMICAL COMPANY, INC., CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, INC., AND HELENA CHEMICAL COMPANY, corporations,

Defendants.

SUPPLEMENTAL MEMORANDUM IN SUPPORT OF MOTION FOR SUMMARY JUDGMENT BY DEFENDANT HELENA CHEMICAL COMPANY

Defendant Helena Chemical Company wishes to submit the following supplemental comments with respect to the Motion for Summary judgment filed by Helena Chemical Company and the corresponding Motion for Summary Judgment filed by the other Defendants.

1. ABA "ANTITRUST LAW DEVELOPMENTS"

The Court's attention is specifically called to the following sentence which appears on page 341 of the ABA "Antitrust Law Developments" (1975), and the authorities cited in support thereof:

> "And even when the sale of the component would be contributory infringement, the indication is that it would nevertheless be misuse for the patentee to refuse to license the combination patent (or a method patent) except on condition that the purchaser also buys the unpatented component (or raw material) from the patentee."

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The above quotation is "on all fours" with the fact situation presented to the Court by this Motion for Summary Judgment. Here, the "component" is the propanil, the sale of which by Defendants should, for the purposes of this Motion, be considered a non-staple and therefore contributory infringement. The patent owned by the Plaintiff Rohm and Haas is a "method patent". Rohm and Haas has agreed that it would "refuse to license" the method patent "except on condition that the purchaser also buys the unpatented component (propanil) from the patentee" (Rohm and Haas).

It is to be noted that the statement by the ABA is made after a careful consideration of 35 U.S.C. § 271 and also the *Mercoid* case. Although such conclusion by the ABA is not court authority, it certainly is submitted to be highly persuasive in a situation such as this where there has been no court decision *subsequent* to the passage of the statute 35 U.S.C. 271 (d) which has been squarely confronted with these facts.

2. 35 U.S.C. 271(d) CANNOT LOGICALLY BE CONSTRUED TO PERMIT A PATENTEE TO USE A METHOD PATENT TO MONOPOLIZE THE SALE OF THE UNPATENTED CHEMICAL EMPLOYED IN THAT METHOD, WHETHER OR NOT THAT CHEMICAL HAS USES OTHER THAN IN THE PATENTED METHOD

Historically, the Federal Courts have been violently opposed to any extension of a patent owner's rights beyond the scope of the granted patent claims. For example, the court cases are legion with respect to prohibiting tying arrangements, wherein the patentee attempted to extend his patent monopoly by tying an unpatented item to a patented combination or method. See for example, *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27 (1931); *Leitch Mfg. Co.* v. *Barbour Co.*, 302 U.S. 458 (1938); *B. B. Chemical Co.* v. *Ellis*, 117 F.2d 829, 834 (1st Cir., 1941), affirmed 314 U.S. 495 (1942).

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The following quotation from the United States Supreme Court decision in the *B. B. Chemical* case reflects accurately the rationale of the Federal Courts, and particularly the United States Supreme Court, in dealing with attempts to extend the patent rights (page 497 of 314 U.S.):

> "We may assume, for purposes of decision, that respondents' infringement did extend beyond the mere sale of the materials to the manufacturers. But in view of petitioner's use of the patent as the means of establishing a limited monopoly in its unpatented materials, and for the reasons given in our opinion in the Morton Salt Company case, we hold that the maintenance of this suit to restrain any form of infringement is contrary to public policy, and that the district court rightly dismissed it.
>
> "It is without significance that, as petitioner contends, it is not practicable to exploit the patent rights by granting licenses because of the preferences of manufacturers and of the methods by which petitioner has found it convenient to conduct its business. The patent monopoly is not enlarged by reason of the fact that it would be more convenient to the patentee to have it so, or because he cannot avail himself of its benefits within the limits of the grant.

> "Despite this contention, petitioner suggests that it is entitled to relief because it is now willing to give unconditional licenses to manufacturers on a royalty basis, which it offers to do. It will be appropriate to consider petitioner's right to relief when it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissipated."

It is the position of Defendant Helena Chemical Company that the last paragraph quoted above from the *B. B. Chemical* case is highly pertinent to the present fact situation. The granting of the licenses to the Defendants with respect to the unpatented propanil would remove the Plaintiffs' misuse and antitrust violations, *and would entirely dispose of this case.* Plaintiff has not done so, but instead, like in the *B. B. Chemical* case, Plaintiff Rohm and Haas insists here that "relief is not to be denied the patentee no matter what his course of business" (Page 834 of 117 F.2d). That proposition has been strictly and forcibly rejected by the Federal Courts and the United States Supreme Court.

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If it were not for the passage of 35 U.S.C. 271 (d) there would be no question but that the present practices of Plaintiff Rohm and Haas would be a clear misuse under the foregoing decisions. The passage of 35 U.S.C. 271 (d) raises two questions with respect to the present Motion for Summary Judgment filed by Defendants, as the Defendants see the situation.

First, did Section 271 (d) completely obliterate the misuse doctrine when there is a contributory infringement action such as was held to be a misuse in the *Mercoid* case? And (2) does the present fact situation come within 35

U.S.C. 271 (d) so as to allow Plaintiff Rohm and Haas to monopolize the sale of an unpatented chemical just because it is to be used in a patented method by others?

For the answer to the first question, reference is made to the language of the United States Supreme Court in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476 (1964) which is generally referred to as "Aro II" wherein the Court made the following statement in connection with Section 271:

> "Congress enacted Section 271 for the express purpose of reinstating the doctrine of contributory infringement as it had been *developed by decisions prior to Mercoid,* and of overruling any *blanket invalidation of the doctrine* that could be found in the Mercoid opinions." (Underlining added)

It is interesting to note first that the *B. B. Chemical* case was a decision "prior to Mercoid" dealing specifically with the very fact situation which is present in this case.

It is believed abundantly clear from a reading of the legislative history of Section 271 and the above interpretation by the United States Supreme Court in Aro II that the purpose of Section 271 was to reinstate the doctrine of contributory infringement. By no stretch

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of the imagination or interpretation, can it logically be construed that the intention was to permit a patent owner to *condition* and *tie* the sale of an unpatented non-staple to a license under a method patent. That kind of condition was expressly held to be a misuse by the United States Supreme Court in the *B. B. Chemical* case. The tieing arrangement becomes even clearer as in the present case, wherein Plaintiff grants licenses to purchasers of the propanil from Plaintiff Rohm and Haas, was an *implied license*

for re-sale to the ultimate users of the patented method. Whether the license is "expressed or implied" is immaterial in connection with the misuse of the patent, *Ansul Company* v. *Uniroyal, Inc.*, 306 F. Supp. 541, 558 (S.D. N.Y., 1969). In other words, Plaintiff Rohm and Haas in this case has done *more than* the acts permitted by Section 271 (d). Section 271 (d) permits a licensing to perform acts which would constitute contributory infringement, but it does not permit, nor state that it would not be a misuse or illegal extension of the patent right, to *condition* that *license* to the other party upon the purchase of an unpatented non-staple chemical from the patentee. That is the misuse or illegal extension of the patent right which has historically been condemned by the United States Supreme Court and certainly was not condoned by Section 271 (d).

As acknowledged by Plaintiff Rohm and Haas in "PLAINTIFF ROHM AND HAAS COMPANY'S MEMORANDUM IN OPPOSITION TO DEFENDANTS' MOTIONS FOR SUMMARY JUDGMENT AND IN SUPPORT OF ITS OWN MOTION FOR SUMMARY JUDGMENT", beginning at page 7 thereof, Rohm and Haas sells the propanil to its customers (implied licensees for re-sale) who automatically acquire the right to resell it. Although this fact was not stipulated, it is obviously admitted by Plaintiff and does not raise a

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"genuine issue as to any material fact" which would defeat Defendants' Motions for Summary Judgment.

3. BECAUSE THE MONSANTO PATENT ON THE PROPANIL WAS SPECIFICALLY HELD INVALID AT THE HANDS OF PLAINTIFF ROHM AND HAAS, THE MISUSE BY PLAINTIFF IS EXCEPTIONALLY APPARENT

As previously pointed out, Plaintiff in this case was the Defendant in *Monsanto Company* v. *Rohm and Haas Company*, 456 F.2d 592 (3rd Cir., 1972), wherein the patent on the chemical propanil was specifically held invalid at the hands of Rohm and Haas Company. Now, Rohm and Haas is effectively trying to construe Section 271 (d) to give Rohm and Haas a monopoly in the very patent which the 3rd Circuit Court of Appeals has held to be invalid and unprotectable by the original inventor of that product, *Monsanto Company*. Certainly, it would be incongruous for Section 271 (d) to be construed to give Rohm and Haas a monopoly now in the chemical which has been declared by the Federal Courts to be *not subject to a patent monopoly*.

For the foregoing reasons, it is respectively submitted that logic, equity and the controlling case law clearly point to the conclusion that the activities of Plaintiff in this case are an illegal extension of the patent monopoly and a misuse. Such a holding would not deny Plaintiff its reasonable royalty from either the Defendants or from the users of the patented method and therefore, Plaintiff can receive its reward for its lawful patent monopoly in the method.

Respectfully,

PRAVEL & WILSON

By B. R. Pravel
B. R. Pravel

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CERTIFICATE OF SERVICE (OMITTED)

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In The
UNITED STATES DISTRICT COURT
For The Southern District of Texas
Houston Division

Civil Action No. 74-H-790

Rohm and Haas Company,
Plaintiff,

v.

Dawson Chemical Co., Inc.;
Crystal Manufacturing Corp.;
Crystal Chemical Co., Inc.;
and Helena Chemical Co.;
Defendants.

James C. Winters, Crain, Winters, Deaton, James & Briggs, Houston, Texas for plaintiff.

John L. McConn Jr., Butler, Binion, Rice, Cook & Knapp, Houston, Texas, for defendants Dawson Chemical Co., Inc., Crystal Manufacturing Corp. and Crystal Chemical Co., Inc.

B. R. Pravel, Pravel and Wilson, Houston, Texas, for defendant Helena Chemical Co.

MEMORANDUM AND OPINION

I. INTRODUCTION

In this suit for patent infringement of a combination patent plaintiff Rohm and Haas Company, as patent owner, alleges that defendant corporations have actively induced

and otherwise contributed to the direct infringement of a method or combination patent implemented in controlling weeds in rice crops. Defendants challenge plaintiff's right to relief contending that regardless of whether they have committed acts of infringement, Rohm and Haas is not entitled to relief because it has committed patent misuse in exploiting its patent.

Defendants Dawson Chemical Company. Crystal Manufacturing Corporation and Crystal Chemical Company have pursued the

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defense of this action independently from defendant Helena Chemical Company. The Court is thus confronted with two sets of motions and briefs on every contention raised by the parties. For purposes of this interlocutory order, unless otherwise noted, the Court has concluded that the relative positions of the four defendants coincide.

Three motions presently are pending before this Court. Specifically, defendants move for dismissal of plaintiff's complaint on the ground that the undisputed facts in this cause establish patent misuse as a matter of law, since this defense acts as a complete bar to plaintiff's action. Plaintiff moves that the Court enter a partial summary judgment ruling that its conduct does not constitute patent misuse under 35 U.S.C. § 271(d). The parties submit, and the Court agrees, that sufficient undisputed facts exist to permit an interlocutory ruling as to whether plaintiff's exploitation of its combination patent constitutes patent misuse.

The Court concludes after carefully analyzing the undisputed facts, the briefs submitted by the parties and the wealth of authority pertinent to this perplexing interface between the patent laws and the public policy notions

undergirding our antitrust laws, that plaintiff's present licensing policy, if sanctioned by this Court, would constitute patent misuse. However, for reasons set out in Section V.B., *infra*, the Court has determined that the defendants' motions for partial summary judgment should be granted at this time only insofar as they seek an adjudication of the legality of plaintiff's monopolization of the sale of propanil, but should be denied to the extent that they seek dismissal of plaintiff's complaint. With the exception of the limitations set out in Section V.C.. *infra*, defendants' motions for protective orders are denied at this time.

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II. MATERIAL FACTS

The following matters in this suit are not controverted:

1. Jurisdiction and venue are proper in this Court as to all parties and subject matter. 28 U.S.C. §§ 1338(a); 1400(b) and 35 U.S.C. § 271.

2. On June 11, 1974, United States Patent 3,816,092 issued to Harold F. Wilson and Dougal H. McRae (hereafter the "Wilson patent"). Rohm and Haas is and has been the sole owner of the Wilson patent since its issuance. The Wilson patent contains the following claims which are pertinent to this action:

> a. A method for selectively inhibiting growth of undesirable plants in an area containing growing undesirable plants in an established crop, which comprises applying to said area 3, 4-dichloropropionanilide at a rate of application which inhibits growth of said undesirable plants and which does not adversely affect the growth of said established crop.
>
> b. The method according to claim 1 wherein the 3, 4-dichloropropionanilide is applied in a composition

comprising 3, 4-dichloropropionanilide and an inert diluent therefor at a rate of between 0.5 and 6 pounds of 3, 4-dichloropropionanilide per acre.

c. The method according to claim 1 wherein most of the undesirable plants are destroyed by 3, 4-dichloropropionanilide applied thereto without substantial adverse effect on crop growing therewith.

d. The method according to claim 2 wherein the established crop is monocotyledonous.

e. The method according to claim 2 wherein the undesirable plants include monocotyledonous plants.

f. The method according to claim 2 wherein the undesirable plants include dicotyledenous plants.

g. The method according to claim 2 wherein the established crop is a grain crop.

h. The method according to claim 2 wherein the undesirable plants include barnyard grass.

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i. A method of selectively inhibiting the growth of growing, tender, undesirable annual plants which are susceptible to 3, 4-dichloropropionanilide, said undesirable plants growing in an area containing an established monocotyledonous crop which is resistant to 3, 4-dichloropropionanilide, which comprises applying to said undesirable plants a composition comprising 3, 4-dichloropropionanilide and an inert carrier therefor at a rate of application which inhibits growth of said undesirable plants and which does not substantially affect the growth of said established monocotyledonous crop.

3. Both before and after June 11, 1974, the issue date of the Wilson patent, defendants have sold formulations containing 3, 4-dichloropropionanilide, which is also known as "propanil". After they were served with the Complaint

in this suit, such sales were with knowledge of the Wilson patent. Both before and after June 11, 1974, purchasers of defendants' propanil formulations have carried out in this country the method described on attached labels. Defendants knew when they sold their propanil formulations that such formulations would be used by purchasers in carrying out the methods described on those labels. Defendants are continuing and intend to continue the making, selling and offering of propanil formulations in this country with the same recommendations and instructions. Defendants, however, contend that the Wilson patent is invalid and unenforceable, and that defendants are not liable as infringers or contributory infringers.

4. Based upon the representations of defendants that they have recommended the use of their propanil products only for controlling weeds in rice crops, plaintiff does not charge infringement of either claim 4, 5 or 7 of the Wilson patent.

5. Plaintiff makes and sells the chemical compound, 3, 4-dichloropropionanilide, known as propanil, in various

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formulations in this country, with instructions to use the propanil in carrying out the steps of the Wilson patent. Purchasers of the plaintiff's propanil formulations in this country are impliedly licensed by operation of law to use the method of the Wilson patent. Each of defendants has requested a license under the Wilson patent. In reply to these requests, plaintiff maintains that it has no present intention of granting a license under the Wilson patent to any of the defendants, or to any propanil users except purchasers of propanil from plaintiff, who enjoy implied licenses by operation of law. To date, plaintiff has not

granted a written license to anyone under the Wilson patent, and it does not presently intend to grant such a license. Plaintiff has never received any payment other than the purchase price from its propanil customers who employ the Wilson patent method.

6. In a suit by Monsanto Company against plaintiff for patent infringement, Monsanto's Patent 3,382,280 claiming the chemical compound, 3, 4-dichloropropionanilide *per se,* was held invalid. Propanil and the various formulations of it presently sold by plaintiff are therefore unpatented chemicals.

* * * * * *

The Court is aware of no opinion involving conduct which was factually congruent to the stipulated conduct of the parties to this action. Resolution of the question of patent misuse in this dispute is further complicated by broad language in the seminal opinion of *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661 (1944), which went beyond the facts confronting the Supreme Court in that opinion and threatened the continued vitality of the tort of contributory infringement in any context. In 1952 Congress enacted a new Patent Act codifying the three torts of patent infringement.

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35 U.S.C. § 217(a-c) (1952). Paragraph (d) of § 271 sets out certain acts of a patent owner which are not barred by the doctrine of patent misuse.

None of the parties dispute the general rule that a patent cannot be exploited to monopolize unpatented articles. Plaintiff argues, however, that a narrow exception to this rule lies whenever the unpatented article is a nonstaple component possessing no substantial, noninfringing uses. Plaintiff supports this contention on four grounds. First, it argues that Congress, in enacting § 271(d), intended to overrule completely the Supreme Court's opinion in *Mercoid, supra.* Second, it argues that the clear language used in § 271(d) expressly sanctions the conduct of the plaintiff in this action. Third, it contends that the Supreme Court in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.,* 377 U.S. 476 (1964), expressly concluded that § 271(c-d) overruled the result in *Mercoid.* Finally, plaintiff maintains that the only two opinions squarely on point which were decided subsequent to the enactment of § 271 both sanctioned extensions of patented combinations to unpatented, nonstaple components.

In addressing these contentions the Court first examines the doctrine of patent misuse as it was applied prior to the Supreme Court's decision in *Mercoid, supra.* Section III.A.1, *infra.* The Court next considers the facts in *Mercoid* as they compare to the facts *sub judice,* as well as the broad language in that opinion which has spawned considerable controversy. Section III.A.2-4, *infra.* In Section III.B., *infra,* the Court examines the language and the legislative history of § 271. Finally, the Court examines *Mercoid*-type misuse as it has been construed by the courts in the aftermath of § 271. Section III.C., *infra.*

III. THE PATENT MISUSE DOCTRINE

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Defendants support their contention that plaintiff has misused its method patent in seeking to monopolize sales of unpatented components by relying primarily on a line of Supreme Court decisions culminating with *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661 (1944), and *Mercoid Corp.* v. *Honeywell Co.,* 320 U.S. 680

(1944) (hereinafter *Mercoid I and Mercoid II,* respectively). In arriving at the conclusion reached in this interlocutory ruling, the Court has found it necessary to study carefully this line of decisions.

A. Patent Misuse Prior to the Enactment of § 271(d)

1. Supreme Court Decisions Antedating Mercoid

The Supreme Court, in *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.,* 243 U.S. 520 (1917), relying for the first time on a rationale which was subsequently to form the basis of the misuse defense, denied relief to a patentee who tried to enforce a tying arrangement which required the purchaser of a patented motion picture machine to limit use of the machine to unpatented film purchased from the patentee. Without considering the scope of the defendant's infringement, the Court denied relief wholly on the basis of the inequitable conduct of the patentee.

In 1931, and again without ever reaching the questions of patent validity or infringement, the Supreme Court applied the patent misuse doctrine to bar a suit for contributory infringement filed by a patentee which had explicitly required that users purchase from its exclusive licensee dry ice used in its combination patent. *Carbice Corp. of America* v. *American Patents Dev. Corp.,* 283 U.S. 27 (1931). In his opinion for the unanimous Court Mr. Justice Brandeis stated:

> "[The patent owner] has no right to be free from competition in the sale of [refrigerant]. Control over the supply of
>
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>
> such unpatented material is beyond the scope of patentee's monopoly; and this limitation, inherent in the patent grant is not dependent upon the peculiar function or character of the unpatented material or on the way in which it is used." 283 U.S. 27, 33.

In *Leitch Mfg. Co.* v. *Barber Co.,* 302 U.S. 458 (1938), the Court extended the patent misuse doctrine to apply in a situation wherein the owner of a process patent limited the right to use the process to implied licensees who purchased unpatented bituminous emulsion from the patentee; no expressed licenses were granted. The Court characterized this attempt to monopolize the sale of an unpatented component as an "unauthorized extension of the [patent] monopoly." 302 U.S. at 463, which constituted misuse "whether the patent be for a machine, a product, or a process." *Id.*

In *Morton Salt Co.* v. *G. S. Suppiger Co.,* 314 U.S. 488 (1941), the Supreme Court upheld the trial court's action in granting summary judgement dismissing the complaint, without ruling on the issues of validity and infringement, holding that the patent owner's attempt to suppress competition in the marketing of unpatented salt tablets, specially made to fit the patented dispenser, was a misuse of the patent.

In *B. B. Chemical Co.* v. *Ellis,* 314 U.S. 495 (1941), decided the same day as *Morton Salt Co., supra,* the rule of *Carbice* and *Leitch* was applied to bar relief from indirect infringement by a defendant who sold unpatented component products specially made for use in a patented process for reinforcing shoe insoles; the component had no other substantial commercial use. The patentee sought to ovoid *Carbice and Leitch* by arguing that the patent misuse doctrine should be limited to situations in which the components supplied by the alleged contributory infringer were

staple articles of commerce. It argued that dry ice and bituminous coal were staple articles. The First Circuit Court of Appeals expressly

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considered and rejected this argument, 117 F.2d 829, at 834, 835, holding that "[t]here is every indication that the *Carbice* and *Leitch* cases apply to specially designed articles". *Id.* In a unanimous opinion the Supreme Court affirmed; without discussing the staple versus non-staple component question, the Court simply held that "in view of petitioner's use of the patent as the means of establishing a limited monopoly in its unpatented materials, . . . the maintenance of this suit to restrain any form of infringement is contrary to public policy. . . ." 314 U.S. at 498. It is not clear whether the staple versus non-staple distinction was ever raised before the Supreme Court, or whether it was considered and rejected as legally insufficient to justify extending the patented process to monopolize the supply of unpatented components.

Although implicitly sanctioned in *B. B. Chemical, supra,* patent misuse in the context of non-staple and unpatented components of a patented combination did not enjoy the expressed imprimatur of the Supreme Court until 1944, when it decided *Mercoid I* and *Mercoid II, supra.*

2. *The Mercoid Decisions*

The patentee in *Mercoid I* held a combination patent for a furnace stoker system; its exclusive licensee manufactured one essential component of the unit, a stoker switch, and the right to assemble and install the patented system was conditioned upon the purchase of this stoker switch.

The defendant, Mercoid Corporation, also manufactured these stoker switches which were exclusively designed for and usable in the patentee's stoker system. The defendant's customers were guilty of direct infringement whenever they installed the stoker system, and the Supreme Court assumed for purposes of its opinion that the defendant's stoker switch sales constituted contributory

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infringement. Relief was denied, however, on the ground that the patentee's licensing scheme constituted patent misuse. The facts in *Mercoid II* were similar to those in *Mercoid I* except for the absence of any policy of granting express licenses exclusively to purchasers of the unpatented stoker switch. The Supreme Court held that the effect was the same, however, since restrictions on implied licenses constituted misuse, barring equitable relief.

Although the doctrine of patent misuse was firmly embedded in the jurisprudence of patent law well before the Supreme Court was confronted with the issues presented by the *Mercoid* cases, this equitable variation of "unclean hands" had never before been analyzed in a context wherein the Court focused on the fact that the "unpatented material or device [was] itself an integral part of the structure embodying the patent," 320 U.S. at 665, and "no use for the accused devices other than in the . . . combination patent" existed. *Id.* at 664. The Supreme Court concluded that "no difference in principle" existed between misusing a patent to monopolize materials employed or consumed in a machine or process, (such as dry ice, bituminous coal, salt tablets, or shoe insole materials), and misusing it to monopolize the supply of integral, albeit unpatented components. *Id.*

3. *Mercoid Contrasted with the Facts in this Action*

Two significant distinctions should be noted between the parties' conduct in *Mercoid* and the conduct at issue in the present case. First, the patent owner in *Mercoid* initially "granted and offered licenses to companies that would take them, including *Mercoid,* who refused". *Mid-Continent Inv. Co.* v. *Mercoid Corp.,* 133 F.2d 803, 810 (7th Cir. 1942). See also *Mercoid II, supra,* 320 U.S. at 683. Parties in the present case have stipulated that defendants

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have requested licenses under the Wilson patent, and plaintiff has unequivocally stated that it has no intention of granting such licenses.[1] For this reason the patent misuse found in *Mercoid* applies *a fortiori* in the present context.

The second distinction lies in the conduct of the alleged infringers. The defendant in *Mercoid* was charged with selling stoker switches which contributed to the direct infringement of users of the plaintiff's patented combination. The defendants in this action are charged not only with contributing to direct infringement by its customers by supplying nonstaple propanil; they are also charged with the specific intent to induce direct infringement by labelling containers of propanil and otherwise actively encouraging others to infringe the Wilson patent. Although these two separate torts of indirect infringement are in many instances overlapping, *see* C. Miller, *Some Views on the Law of Patent Infringement by Inducement,* 53 J. PAT. OFF. SOC'Y 86, 98 (1971), the specific intent to cause direct infringement which is required in order to establish inducement is not a necessary element of contributory infringement. Likewise, the sale of a nonstaple article having no known noninfringing uses is not a necessary element of

the tort of inducement. *Id.* Thus, the total infringing effect if all of the elements of both of these torts are established is potentially greater in the present case than it was in *Mercoid.* Although defendants' conduct does not illume the question of whether plaintiff's conduct constitutes patent misuse, the Court has concluded, Section V.B., that the defendants' conduct might well affect the ultimate relief granted in this case.

4. *The Dictum in Mercoid I*

The *Mercoid* decisions severely restricted the well-established doctrine of contributory infringement. To the

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extent that the Court had not previously acknowledged expressly that the principle in *Carbice* applied in the context of a non-staple component possessing no known noninfringing use, the defense of patent misuse reached a new milestone in the *Mercoid* decisions. Beyond that, however, the Supreme Court in sweeping dictum also cast a pale on the doctrine of contributory infringement in any context, regardless of whether the patentee's conduct constituted patent misuse.

> "The result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider." 320 U.S. at 669.

This Court has concluded that when Congress enacted the Patent Act of 1952, the inclusion of § 271 was intended to mollify the potential effect that this dictum could have on the patent owner's ability to protect his property against contributory infringers in any context, whether or not he was seeking to monopolize the sale of unpatented articles.

This interpretation simply restores the remedy of contributory infringement as it was applied prior to *Mercoid.*

B. 35 U.S.C. §271

Section 271[2] represents the first congressional effort to codify the parameters of the common law doctrines of patent infringement. As stated before, it is generally accepted that § 271 was prompted by the *Mercoid* decisions.[3] However, it is somewhat more difficult to determine whether the substantive holding of *Mercoid* — that a combination patent may not be enforced against sellers of unpatented non-staple components possessing no known non-infringing uses — or whether the broad dictum in that decision precipitated the enactment

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of § 271[4]. Based on a consideration of (1) the language of this section, (2) its legislative history, (3) its application by the courts, and (4) the post-1952 vitality of *Mercoid* in numerous opinions, this Court has concluded that the facts addressed by the Supreme Court in *Mercoid* would not mandate a different conclusion under § 271. This Court is further of the opinion that the patentee *sub judice,* by seeking to monopolize the sale of an unpatented component of its protected method without even attempting to license other manufacturers, is exploiting its patent in a manner which is less legitimate than the exploitation condemned by the Supreme Court in *Mercoid.* Section III. A. 3., *supra.*

Plaintiff submits that until substantial uses for propanil are discovered other than in plaintiff's patented method, plaintiff is entitled to monopolize the supply of this unpatented chemical compound. Plaintiff further contends that it has no obligation to alter its present "no licensing" policy until and unless such noninfringing uses for propanil

are discovered. Although defendants' direct or indirect infringement of plaintiff's patent presents no threshold inquiry in resolving the patent misuse issue, *see Morton Salt Co.* v. *G. S. Suppiger Co., supra,* 314 U.S. at 490, a brief consideration of the interrelation of the four paragraphs of § 271 is nevertheless necessitated by the plaintiff's contention.

Paragraph (a) of § 271 defines "direct infringement" as the using, making or selling of a patented invention. Paragraphs (b) and (c) codify two doctrines of indirect infringement: active inducement of direct infringement, and contributory infringement. Paragraph (d) sets out

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three acts the commission of any one or more of which by a patentee seeking to protect and exploit his patent cannot be relied upon by an infringer as the sole basis for its defense of patent misuse.

1. *Emergence of the Doctrines of Indirect Infringement Embodied in Paragraphs (b) and (c) of 35 U.S.C. § 271*

The Constitution provides for Congress to promote "the Progress of Science and Useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST. art. I, § 8. In accordance with this provision of the Constitution, Congress enacted the first patent act in 1790 which established the exclusive right of inventors to exploit their discovery. Patent Act of April 10, 1790, ch. 7, 1 Stat. 109. *See also* 35 U.S.C. § 154 (1952).

An early principle of the law of combination patents established that direct infringement would not lie unless

the combination in its entirety was used. *See Prouty* v. *Draper Ruggles & Co.*, 41 U.S. 335 (16 Pet.) (1841). It soon became apparent, however, that the doctrine of direct infringement was inadequate to protect effectively the patentee's invention.[5] Two distinct doctrines of indirect infringement therefore were developed to protect the inventor.

The doctrine of contributory infringement as it presently is codified in § 271(c) was recognized in the early case of *Wallace* v. *Holmes*, 29 F. Cas. 74 (No. 17,100) (C.C. Conn. 1871).[6] In this case, the defendant sold burners which had no known use except in the patentee's invention. The court concluded that the act of selling these burners constituted a 'virtual" infringement of the protected patent.

In *Bowker* v. *Dows*, 3 F. Cas. 1070 (No. 1734) (C. C. Mass. 1878), the court found liability for infringement in a context foreshadowing the indirect infringement doctrine of inducement. The defendant sold an unpatented component of the patentee's patented chemical compound. Unlike the burners in *Wallace, supra*, this chemical component had various commercial uses; however, the defendant advertised that the compound could be used in the particular manner claimed in the plaintiff's patent. The Court concluded that the defendant's act of encouraging infringement rendered him a joint tortfeasor.

Section 271(b) provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer". It is quite clear from the language of this provision that the broad tort of infringement by inducement is not restricted in any way to unpatented component articles which lack any substantial non-infringing use. Liability for contributory infringement under section 271(c), on the other hand, is far more restrictive:

> "Whoever sells a component of a patented machine, manufacture combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially adapted for use in an infringement of such patent *and not a staple article or commodity of commerce suitable for substantial noninfringing use,* shall be liable as a contributory infringer." (Emphasis added)

Paragraphs (b) and (c) of § 271 codify the type of conduct which will give rise to a cause of action for indirect infringement of a patent. Neither of these paragraphs delineates or refers to conduct of a patentee that constitutes

patent misuse, which is the essence of the defendants' motion for partial summary judgment. Paragraph (d) is the only paragraph of § 271 which addresses the conduct of a patentee.[7]

2. *Patent Misuse Under § 271(d) of 35 U.S.C.*

Section 271(d) provides that:

> "[N]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement."

The plaintiff takes the position that the language of this provision expressly sanctions its licensing policy.

The Court notes three aspects of this provision which are immediately apparent before turning to legislative history or judicial construction. First, presuming actionable infringement, § 271(d) focuses solely on the conduct of the patent owner, and not the alleged infringer. Second, § 271(d) does not define conduct which equates to patent misuse; this paragraph simply sets out certain conduct which does *not* constitute patent misuse. Finally, § 271(d) does not limit or condition the conduct it describes on the staple or nonstaple nature of component articles of a combination patent. The only reference in § 271 to the staple or nonstaple nature of component articles can be found in paragraph (c), which focuses solely on conduct of an infringer that gives rise to an action for contributory infringement.

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The Revisory Notes to § 271 state that paragraph (d) is ancillary to paragraphs (b) and (c). Provided that the patent owner successfully establishes that the defendant is guilty of either actively inducing or contributing to infringement, "[he] is not deemed to have misused his patent *solely* by reason of doing anything authorized by the section." *Id.* No combination of one or more of the three patent owner acts set out in § 271(d) can form the sole basis for a finding of patent misuse.

3. *Legislative History*

The intent of Congress with regard to the effect that § 271 should have on the result in the *Mercoid* decisions has been the subject of numerous commentaries.[8] During

the Senate debate, just before the bill was passed, Senator Saltonstall asked on the floor, "Does the bill change the law in any way or only codify the present patent laws?" Senator McCarran, Chairman of the Judiciary Committee which had been in charge of the bill for the Senate, responded, "It codifies the present patent laws." 98 Cong. Rec. 9323 (July 4, 1952). To the extent that this exchange represents a knowledgeable consideration of the substance of § 271, it would support the conclusion that the only purpose of this section was to prevent the total emasculation of the law of contributory infringement threatened by the dictum in *Mercoid*. This otherwise innocuous exchange bears repetition in this ruling not because of the insight that it represents or reveals, but rather, because this colloquy between Senators has been quoted by the Supreme Court on at least two separate occasions.[9]

A statement made by Mr. Giles S. Rich, the chief draftsman of the provisions on contributory infringement in § 271, was somewhat more reflective on the scope of patent

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misuse contemplated or intended by Congress:

> "Mr. Rich . . . .
>
> "Other decisions following *Mercoid* have made it quite clear that at least some courts are going to say that *any effort whatever* to enforce a patent against a contributory infringer is in itself misuse . . . . Therefore, we have always felt — we who study this subject particularly — that to put any measure of contributory infringement into the law, you must, *to that extent and to that extent only,* specifically make exceptions to the misuse doctrine, and that is the purpose of paragraph (d)."
>
> (Emphasis added)

Hearings before the Subcommittee of House Judiciary Committee on H.R. 3760, 82d Cong. 1st Sess. 161-162 (1951), *cited in Aro Mfg. Co.* v. *Convertible Top Co.,* 365 U.S. 336, 349, *note* 4 (1961) (Black, J., concurring) (*Aro I*).[10] "To that extent and to that extent only," this Court would concur that any dictum in *Mercoid* which can be construed to condemn as misuse "any effort whatever to enforce a patent against a contributory infringer" has been pre-empted by § 271(d). Section 271 assures the viability of contributory infringement actions, but it does not compel the overruling of the result in *Mercoid.*

4. *Conduct of Rohm and Haas Perceived Through the Lens of Section 271(d)*

As noted earlier, in enacting § 271(d), Congress, rather than attempting to define the parameters of the defense of misuse, sought instead to delineate three exceptions to this doctrine. It is not disputed that the first exception set out in § 271(d)(1) sanctions plaintiff's right to sell propanil, an act which this Court assumes for purposes of this ruling, would constitute contributory infringement if performed by another without plaintiff's consent. This act in and of itself therefore cannot constitute patent misuse, by statutory definition. Nor is it disputed that plaintiff,

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under § 271(d)(2), has the right to authorize a third party by virtue of an implied license to resell the propanil for use in plaintiff's patented method.

Finally, it is clear that § 271(d)(3) eliminates the fear created by *Mercoid,* that the mere filing of a law suit alleging indirect infringement in and of itself constitutes misuse. *See* Note, 66 HARV. L. REV. 909, 917 (1953). *Cf. W. L. Gore & Assoc., Inc.* v. *Carlisle Corp.,* 529 F.2d 614 (3d Cir. 1976). It is plain from the language of § 271(d) that no "one or more" of the three foregoing acts will give rise to the defense of patent misuse. Defendants argue, however, that plaintiff has gone beyond the sum of the acts rendered permissible by § 271(d). They further maintain that while § 271(d)permits plaintiff to sell the unpatented propanil, the act does not permit plaintiff to monopolize such sales.

Defendants also maintain that they are and have at all times been willing to pay royalties to plaintiff for licenses to sell propanil for use in plaintiff's patented method. It is plaintiff's refusal to license which defendants maintain is the act not sanctioned by any of the exceptions to the misuse doctrine set out in § 271(d). Defendants submit that § 271(d) does not require this Court to legitimize a scheme by which a patent owner licenses others on the explicit condition that the licensee purchase an unpatented component from the patent owner. This refusal to grant licenses to the defendants, coupled with plaintiff's acts which are specifically sanctioned by § 271(d), results in the scheme which the defendants argue would impermissibly extend the Wilson patent.

Plaintiff's response to this contention is that it enjoys an unrestricted right to refuse licenses to defendants which would permit defendants contributorily to infringe the Wilson patent.[11] In support of this contention plaintiff

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maintains that a patent owner "is neither bound to use his discovery himself nor permit others to use it," *citing Continental Paper Bag Co.* v. *Eastern Paper Bag Co.,* 210 U.S. 405, 425 (1908), and *Cataphote Corp.* v. *DeSoto Chemi-*

cal Coatings, Inc., 450 F.2d 769, 744 (9th Cir. 1972), *cert. denied*, 408 U.S. 929 (1972). Neither of these cases involved the attempted extension of a patent right to monopolize the sales of unpatented components. The context of this rule in *Continental Paper Bag* involved a patentee's right to hoard his discovery. In *Cataphote* the Court simply upheld a patent owner's right to restrict the marketing of his patent to one exclusive licensee. The plaintiff *sub judice* is neither hoarding his patent nor limiting its monopolistic effects to the actual claims of its patented method. Moreover, "[t]he fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use." *Blonder-Tongue* v. *University Foundation*, 402 U.S. 313, 344 (1970).

Still focusing on the conduct of plaintiff as it bears on the defense of patent misuse, defendants advert to a brief portion of the history of litigation pertaining to propanil in federal courts. In 1970 plaintiff, as defendant in *Monsanto Co.* v. *Rohm & Haas Co.*, 312 F. Supp. 778 (E.D. Pa. 1970), *aff'd*, 456 F.2d 592 (3d Cir. 1972), successfully argued that a patent which had been issued for the chemical compound propanil should be declared invalid. Plaintiff succeeded in pursuading the court in *Monsanto* that propanil:

> "was for all purposes in the public domain and cannot be patented as a compound . . . . [T]he inventor of the novel property of the compound is not without recourse since he may patent the use of 3, 4-DCPA [propanil] as a selective post-emergence herbicide."

Id. at 790. Therefore, prior to the issuance of the Wilson

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patent, propanil was declared "for all purposes in the public

domain". With regard to matters belonging to the public, the Supreme Court has held that:

> "a patent is not, accurately speaking, a monopoly . . . . The term "monopoly" connotes the giving of an exclusive privilege for buying, selling, working or using a thing which the public freely enjoyed prior to the grant. Thus a monopoly takes something from the people. An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the community by adding to the sum of human knowledge."

United States v. *Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933). Plaintiff seeks in this lawsuit to monopolize the sale of propanil by taking it from the public domain. This Court is aware of no decision wherein the patent laws have been construed to permit such a taking.

Construed broadly, § 271(d) could be read to embrace the plaintiff's efforts to corner the market on all sales of unpatented and unpatentable propanil. However, the language of this provision is hardly a "clear and certain signal from Congress" that prior cases should be overruled. *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 530 (1971). The language of § 271(d) simply does not encompass the totality of plaintiffs' conduct in this case.

Neither the Supreme Court nor the United States Court of Appeals for the Fifth Circuit has construed § 271(d) to overrule the result in the *Mercoid* decisions. Section III.C.1.-3., *infra*. Although neither of these Courts has confronted this question in the precise context of a *Mercoid*-type misuse, both have continued to cite *Mercoid* as good authority.[12] Certainly the enactment of § 271 quelled the broad dictum in *Mercoid*. However, if it likewise overruled the result in *Mercoid*, it is incongruous that *Mercoid* is nevertheless still cited as good law.

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C. Mercoid-Type Misuse Subsequent to the Patent Act of 1952

1. *The Supreme Court's Decision in Aro II*

Plaintiff contends that the Supreme Court's holding in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 492 (1964) (hereafter *Aro II*), demonstrates that § 271(d) was clearly intended to and did reverse the *Mercoid* rulings:

> ". . . Congress enacted § 271 for the express purpose of reinstating the doctrine of contributory infringement as it had been developed by decisions prior to *Mercoid*, and of overruling any blanket invalidation of the doctrine that could be found in the *Mercoid* opinions."

377 U.S. at 476. This contention is without merit for several reasons. First, as noted previously by the Court, Section III.A., *supra*, the *B. B. Chemical Co.* v. *Ellis* opinion rendered three years before *Mercoid* held that an action for contributory infringement was defeated by the application of patent misuse on facts very similar to the cause here pending. Therefore, "contributory infringement as it had been developed by decisions prior to *Mercoid*" did not authorize or sanction patent extensions which effected a monopoly over unpatented components. Also, "prior to *Mercoid*" the doctrine of contributory infringement did not suffer from the sweeping language used by Justice Douglas which cast a doubt on the surviving "residuum" of this tort in *any* context. Moreover, in construing § 271 to overrule "any blanket invalidation of [contributory infringement]," the Supreme Court chose language which carefully avoided overruling the *Mercoid* result in toto. Finally, the language which is relied upon by plaintiff in

Aro II was not intended by the Supreme Court to signal the complete demise of *Mercoid* because the Court resurrects *Mercoid* some five pages later in the opinion, 377 U.S. at 497, by stating in reference to a patent owner seeking to monopolize the sale

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of an unpatented, nonstable fabric component:

> "In particular, the patent owner cannot impose conditions concerning the unpatented supplies, ancillary materials, or components with which the [patented] use is to be effected."

Aro II, supra, 377 U.S. at 497.[13]

2. *Supreme Court Rulings Subsequent to Aro II*

Decisions rendered by the Supreme Court since *Aro II* which address the question of the permissible scope of a combination patent demonstrate that *Mercoid* continues to retain vitality. *Deep South Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1971); *Blonder-Tongue v. University Foundation*, 402 U.S. 313 (1970); *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969).

In *Deep South Packing Co.* v. *Laitram Corp., supra,* the Supreme Court reversed a decision by the United States Court of Appeals for the Fifth Circuit which had held that a defendant who exported unpatented parts of an easy-to-assemble, patented combination, was guilty of direct infringement for "making, using, or selling any patented invention within the United States". 35 U.S.C. § 271(a). The Supreme Court reversed. Citing *Mercoid II*, the Supreme Court premised its reversal on the "unassailable"

rule that "a patent on a combination is a patent on the assembled or functioning whole, not on the separate parts". 320 U.S. at 684.[14] The Supreme Court proceeded to set out a rigorous test for advocates who would urge that the Patent Act modified or overruled prior cases.

> "[W]e should not expand patent rights by overruling or modifying our prior cases construing the patent statute, unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language. We would require a clear and certain signal from Congress before approving the position of a litigant who, . . . argues that the beachhead of privilege is wider, and the area of public use
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>
> "narrower, than Courts had previously thought. No such signal legitimizes respondents' position in this litigation."

406 U.S. at 530.

In *Blonder Tongue* v. *University Foundation,* 402 U.S. 313 (1970), the Supreme Court, while "recognizing the patent system's desirable stimulus to invention," cited *Mercoid* as one of a "series of decisions in which the [Supreme] Court has condemned attempts to broaden the physical or temporal scope of the patent monopoly".[15] *Id.* at 343.

Zenith Radio Corp. v. *Hazeltine Research, Inc., supra,* and *United States* v. *Loew's, Inc.,* 371 U.S. 38, 46 (1962). do not deal with § 271(d) or its effect on the *Mercoid* rule,[16] but it is nevertheless evident that the language in these opinions reveals a great reluctance on the part of the Supreme Court to aid a patentee seeking to extend the

scope of his property rights beyond the claims of his patent.[17]

3. *Lower Court Decisions*

a. *The Fifth Circuit*

The United States Court of Appeals for the Fifth Circuit has not construed § 271 in the context of a *Mercoid*-type misuse, although it has indicated in dictum that the result in *Mercoid* still maintains some vitality.[18] In *Fromberg, Inc.* v. *Thornhill,* 315 F.2d 407 (5th Cir. 1967), the Court of Appeals cited *Mercoid* for the general rule that any effort to extend a combination patent to monopolize an unpatented component would be patent misuse, 315 F.2d at 412, but acknowledged that the enactment of "§ 271 was intended to work some changes in these concepts". 315 F.2d at 412, n.13. The Court expressly reserved judgment on the reach or purpose of such changes. *Id.* at 414, n.18, The law in this Circuit

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as to whether patent owners can monopolize the sale of nonstaple components of their patent is therefore unsetttled.

b. *Other Lower Court Decisions*

Plaintiff cites two post-1952 decisions which it maintains are the only authorities squarely on point with the case at bar. *Harte & Co., Inc.* v. *L. E. Carpender Co.,* 138 U.S.P.O. 538 (S.D.N.Y. 1963); *Sola Electric Co.* v. *General Electric Co.,* 146 F. Supp. 625 (N.D. Ill. 1956). In *Sola* the plaintiff owned a patent on a combination of unpatented components to be used in an alternating current supply system. Like the patentee in *Mercoid,* and the patent owner *sub judice,* the plaintiff and his licensees derived their income from

sales of unpatented, nonstaple components. Licenses were granted only to customers who purchased the unpatented components sold by the plaintiff or his licensees. The court held that the patent was invalid and therefore unenforceable. 146 F. Supp. at 646.

Although it was wholly unnecessary to do so in light of the court's ruling on the invalidity of the patent, the court went on to consider the defendant's allegation of patent misuse, concluding that § 271 had indeed overruled the result in the *Mercoid* decisions. This Court does not agree with this conclusion. However, it is more important to note that the licensing policy in *Sola,* unlike the policy *sub judice,* did not effect a monopoly in unpatented components — licensed use of the *Sola* patent was not conditioned exclusively on purchases of the unpatented component from the patent owner. The patent owner in *Sola* exploited its patent in two ways. First, it collected royalties from licensees who in turn manufactured and marketed the unpatented component. Second, it derived profits from the sale of unpatented components,

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which were presumably priced to compete with the plaintiff's competitor-licensees. Section 271(d)(1) clearly permits an owner of a combination patent to compete with other manufacturers in the sale of unpatented components. Plaintiff Rohm and Haas, on the other hand, is urging its right to eliminate competition wholly by monopolizing the sale of unpatented and now unpatentable propanil.

The patent in *Harte* involved an ornamental design for resinous plastic material used in raincoats, shower curtains and upholstery. The defendant patent owner required its licensees to purchase from the defendant all embossing rollers used in the patent design. These rollers were used

exclusively in the defendant's design and thus were nonstaple items. In its findings the court held that the "rollers were sold by [the patent owner] at cost, and without intent to restrain competition in or monopolize the production of the rollers." 138 U.S.P.Q. at 583. The court concluded that sales of the rollers did not constitute patent misuse since such sales were based on the defendant's skills and experience in the design field, and hence not conditioned on the defendant's ownership of the patented design.

Unlike the *Harte* plaintiff, the plaintiff at bar does not contend that it sells its propanil at cost in order to secure licenses for its patented method; nor does it make any pretense as to its intent to eliminate competition by monopolizing the sale of propanil. There is also no contention here that plaintiff's propanil is in any way superior to the propanil sold by the defendants. Notwithstanding plaintiff's reliance on this opinion, the Court is unable to agree that the rationale of *Harte* applies in the present context.

Post-1952 authority cited by defendants supports the broad proposition that a patent on a combination

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does not secure a monopoly on any of the unpatented components of that combination, and whether those components are staple or nonstaple is a factor which the courts have simply ignored in applying this principle. *See* M. Nelson, *Mercoid-Type Misuse is Alive,* 56 J. PAT. OFF. COC'Y 134 (1974), and cases cited therein. *See also McCullough Tool Co.* v. *Wells Surveys, Inc.,* 343 F.2d 381 (10th Cir. 1965).

Plaintiff distinguishes defendants' cases on various grounds, including the fact that some do not deal with nonstaple components. *E.g., Calhoun v. United States,* 339 F.2d 665 (Ct. Cl. 1964), *Sonobond Corp.* v. *Uthe Technolo-*

gy, 314 F. Supp. 878 (N.D. Cal. 1970). For example, it is urged that the unpatented component at issue in *Sonobond* possessed many uses outside of the patent in dispute. Plaintiff concludes that § 271(d) was therefore inapplicable in *Sonobond* because the condition precedent to its applicability—the existence of a nonstaple article whose sale would constitute contributory infringement—simply could not be satisfied. As noted in Section III.B.1., *supra,* the Revisory Notes to § 271 belie this interrelation between the four paragraphs of § 271. Only the tort of contributory infringement, as defined in paragraph (c) is limited to the sale of nonstaple articles. Neither direct infringement under paragraph (a), nor induced infringement under paragraph (b) limits the applicability of these respective torts to nonstaple components. Paragraph (d) is ancillary to all three of the paragraphs which precede it. Therefore, regardless of whether the infringing article is staple or nonstaple, patent misuse may be an appropriate defense.

Plaintiff also argues that cases in which royalty rates are determined to be discriminatory because they are based on whether the licensee purchased unpatented components from the patent owner are not apposite to the present facts.[19]

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However, in the context of patent misuse it is clear that discriminatory royalty rate cases are applicable at least to the limited extent that the discriminatory rate unduly stifles or effectively destroys competition in the sale of unpatented components. In the present context, if plaintiff had offered at a prohibitive cost to license defendants, the stifling effect might well be functionally indistinguishable from a refusal to license at any price.

It is not necessary to consider all of the authority cited by defendants. The Supreme Court in *B. B. Chemical Co., supra,* and *Mercoid I* and *II, supra,* characterized efforts to effect a monopoly over unpatented components as patent misuse, whether the component was nonstaple or otherwise. Neither the legislative history nor the language of § 271 indicates that this rule has been modified. In determining whether such a modification has transpired, it is sufficient to conclude that the Court is aware of no authority that construes § 271 to sanction, on grounds that the monopoly sought extended to a nonstaple component, patent owner conduct which would otherwise constitute patent misuse.

IV. DEFENDANTS' COUNTERCLAIM FOR ANTITRUST VIOLATIONS

Defendants have filed counterclaims in this action alleging violations of the antitrust laws, 15 U.S.C. §§ 1, 2 and 14. Defendants also seek declaratory relief under 28 U.S.C. § 2201, pronouncing the Wilson patent invalid and unenforceable. Nothing in this ruling should be construed to be determinative of any of the matters raised by defendants in their counterclaims. While conduct of a patent owner which constitutes a violation of the antitrust laws would usually, if not always, constitute patent misuse as a matter of law, the congruence of patent misuse and violations of antitrust laws

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has long been an unsettled question. It was unclear until recently whether a finding of patent misuse required proof of an antitrust violation. *See Hensley Equipment Co.* v. *ESCO Corp.,* 383 F.2d 252, note 19 (5th Cir. 1967). In *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S.

100, 140 (1969), the Supreme Court removed all lingering doubts in holding that a finding of patent misuse did not necessarily constitute an antitrust violation under the Sherman or the Clayton Acts. *See also* T. Maffei, *The Patent Misuse Doctrine: Balance of Patent Rights and the Public Interest,* 52 J. PAT. OFF. SOC'Y 178 (1970). The ruling *sub judice* is limited to the question of patent misuse.

V. CONCLUSION

A. Plaintiff's Motion for Partial Summary Judgment to Strike Defendants' Allegations of Patent Misuse

The Court in this ruling has determined first that the result in the *Mercoid* decisions dictates a finding of patent misuse in this action as a matter of law, based upon stipulated facts. Additionally, the Court has concluded that plaintiff's attempt to monopolize the sale of propanil in this case by refusing to license under any circumstances constitutes an extension and exploitation of its patent exceeding the patent exploitation condemned by the Supreme Court in the *Mercoid* decisions. Neither the legislative history, nor the subsequent judicial construction of § 271 supports the plaintiff's contention that the test for patent misuse is in any manner dependent upon the staple or nonstaple nature of the infringing article. Patent misuse is an equitable defense which, if established, bars a patent owner seeking equitable relief for direct infringement under § 271(a), active inducement of infringement under § 271(b), or contributory infringement under § 271(c).

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Section 271(d) patent misuse is expressly ancillary to these three codified torts of patent infringement. Revisory Notes, 35 U.S.C. § 271 (1952).

Section 271(d) does not create a cause of action against a mala fide patent owner. Patent misuse arises only as a defense to an action for infringement. It becomes germane only after the court determines or assumes that there has been an infringement under paragraphs (a), (b) or (c) of § 271. Congress could easily enough have provided that any owner of a combination patent is permitted to monopolize the sales of unpatented, nonstaple components which lack any substantial noninfringing use. It did not do so. Plaintiff, by seeking to incorporate the staple-nonstaple issue into the construction of § 271(d), confuses analysis of the patent owner's conduct with that of the infringer.

This finding of patent misuse in no way resolves the question of validity of the Wilson patent; moreover, once the patentee has purged itself of the effects of its patent misuse, it may seek once more to enforce its patented method by reasserting its allegation of contributory infringement. *Hensley Co.* v. *ESCO Corp.,* 383 F.2d 252, 261 (5th Cir. 1967). For reasons set out in this ruling, however, the Court holds that plaintiff's present policies constitute patent misuse.[20]

B. Defendants' Motion for Partial Summary Judgment Urging Dismissal of Plaintiff's Complaint

Defendants' motions for summary judgment to strike the plaintiff's allegations of indirect infringement on the grounds that such allegations are barred by the misuse of plaintiff's patent confronts this Court with a problem not wholly resolved by the denial of plaintiff's motion for partial summary judgment. The Supreme Court in *Morton Salt Co.* v. *G. S. Suppiger,* 314 U.S.

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488 (1942), indicated that when misuse of the patent is established as a matter of law prior to trial, the patent owner's complaint should be dismissed without prejudice to purge the misuse and thereafter seek relief. In this ruling the Court has concluded that the plaintiff cannot market propanil, refuse to license others to compete in such sales, and then file a suit with the object of securing a monopoly over the sale of propanil. This Court, by enjoining defendants from selling propanil, would effectuate this monopoly. On the other hand, plaintiff has alleged both contributory infringement and active inducement of infringement. Appropriate relief for active inducement of infringement could conceivably be fashioned to avert this wrongdoing and at the same time avoid an impermissible extension of plaintiff's patent to an unpatented combination. If defendants' labels and advertising are ultimately proven to constitute active inducement of infringement of the Wilson patent, defendants, in urging dismissal of this suit, in effect seek

> "a continuing immunity from suit, . . . blithely continu[ing] to practice the arts of piracy, . . . while pointing . . . finger[s] at plaintiff as unclean, [and are] not Daniel[s] come to judgment, but Satan[s] quoting the Scripture to [their] purpose."

Gray Tool Co. v. *Humble Oil & Refining Co.*, 186 F.2d 365, 368 (5th Cir. 1951), *cert. denied*, 941 U.S. 934 (1951). This piracy, if proven, can and should be prohibited by the Court.

Issues remaining to be resolved in this case include the validity of the Wilson patent and whether it has in fact been infringed by the defendants, as well as the various anti-trust allegations raised in the defendants' counter-

claims. This ruling is only a pre-trial, interlocutory adjudication of the question of patent misuse in the context of plaintiff's present licensing policies. It is based entirely on facts stipulated by the parties. Like infringement, patent misuse

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involves ongoing conduct. If appropriate, this ruling is subject to revision by this Court since it has no res judicata effect. 6. J. Moore, Federal Practice ¶ 56.20 [3-4] (2d ed. 1976); *see also Bon Air Hotel, Inc.* v. *Time, Inc.*, 426 F.2d 862 (5th Cir. 1970); Rule 54 (b) Fed. R. Civ. P.

In a case of this complexity, both with respect to the resolution of the pending motions, as well as the ultimate decree entered in this cause, this Court will be guided by the wisdom of Chief Judge Hutcheson, who was confronted by similar facts in *Gray Tool Co.* v. *Humble Oil & Refining Co., supra.*[21] Defendants' motions for partial summary judgment are granted at this time insofar as they seek an injunction of the legality of plaintiff's monopolization of the sale of propanil, but are denied to the extent that they seek dismissal of plaintiff's complaint.

C. Pending Motions for Protective Orders Under Rule 26(c), Fed. R. Civ. P.

Defendants have filed motions for protective orders under Rule 26(c), Fed. R. Civ. P., seeking to stay discovery pending resolution of the three outstanding motions for summary judgment. With the exception of a motion for protective order filed by defendant Helena Chemical Corporation, which seeks to quash notices of depositions given to a Mr. Jerry A. Williams and a Mr. J. C. Blue, the sole basis submitted for the requested orders was the pendency

of arguably dispositive motions for summary judgment. This ground no longer applies; therefore, all motions for protective orders related thereto are denied.

1. *Proper Situs for Deposing a Corporate Official*

Mr. Williams, who is presently chairman of the board of defendant Helena, resides in Billings, Montana. Although this lawsuit was filed in the Southern District of Texas, the defendant Helena does not have a principal place of business

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here in this District. Helena submits that only the proper locations in which to take the deposition of Mr. Williams are either at Helena's principal place of business in Memphis, Tennessee, or at the residence of Mr. Williams in Billings, Montana. Although defendant Helena is doing business in the Southern District of Texas, the Court agrees that the plaintiff should be required to choose between Mr. Williams' residence and defendant's principal place of business for taking a deposition. *Application of Johnson and Johnson,* 59 F.R.D. 174, 178 (D. Del. 1973); *Joseph F. Less* v. *Taber Inst. Corp.,* 53 F.R.D. 645, 646 (W.D.N.Y. 1970).

2. *Parties Deposable as Corporate Officials*

Mr. Blue was a past president of defendant Helena. He is no longer president or otherwise employed by Helena. The Court agrees with the defendant that Mr. Blue, who is a resident of Houston, would be subject to a deposition as an individual, but only by subpoena. "A corporation may not be examined [by a deposition] through one who was formerly an officer thereof but is no longer in its employ."

Kolb v. *Bull Steamship Co.,* 13 F.R.D., 252 254 (E.D.N.Y. 1962). *See also* J. MOORE, FEDERAL PRACTICE, ¶ 30.51, n.10 (2d ed. 1975).

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Plaintiff's motion for partial summary judgment is denied. Defendant's motions for partial summary judgment are granted in part and denied in part. Defendants' motions for protective orders are denied with the exception of defendant Helena's motion to quash notices of deposition given to Jerry A. Williams and J. C. Blue, which is granted.

DONE at Houston, Texas, this 10th day of August, 1976.

Carl O. Bue, Jr.

United States District Judge

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FOOTNOTES

[1] *See also B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495, 498 (1942). Licenses to use the plaintiff's patented method of reinforcing shoe insoles were granted to plaintiff's customers who purchased a pre-coated fabric used in the method. The Supreme Court rejected the argument that this licensing method was the only practicable way to exploit the patent, holding that the plaintiff's attempt to establish a monopoly in an unpatented article constituted misuse of its patent. The Chief Justice indicated that if the plaintiff was willing to grant unconditional licenses to manufacturers on a royalty basis, reconsideration of its right to relief would be appropriate.

[2] "*Section 271. Infringement of patent.*

"(a) Except as otherwise provided in this title [§ 1 et seq. of this title], whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

"(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

"(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

"(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another

to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement."

[3] *E.g.*, J. Scafetta, *Ten Years After Aro II: The Effect of Patent Act § 271 on the Patent Misuse Doctrine*, 26 S. CAR. L. REV. 539, 548 (1975); C. Miller, *Some Views on the Law of Patent Infringement by Inducement*, 53 J. PAT. OFF. SOC'Y. 86, 95 (1971); *Note, Combination Patents: the Right to Prohibit Sales of Replacement Parts*, 70 Yale L.J. 649, 655 (1961; *Note, Contributory Infringement and Misuse — the Effect of Section 271 of the Patent Act of 1952*, 66 HARV. L. REV. 909, 914 (1953).

[4] Of the authorities cited in *note* 3, *supra*, the authors of Comment, 53 J. PAT. OFF. SOC'Y 86, 95-96 (1971); *Note*, 70 YALE L. J. 649, 655 (1961); and *Note*, 66 HARV. L. REV. 909, 914 (1959), conclude that the enactment of § 271

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sought to eliminate the uncertainty created by Mr. Justice Douglas' dictum in *Mercoid*. *See also* A. Areeda, *Antitrust Analysis* ¶ 534(a), n.89 (2d ed. 1974).

[5] For example, in instances where a large number of consumers directly infringing a combination patent are supplied with components or otherwise aided by a small number of "accomplices", the most effective method to halt the infringement is to permit the patent owner to sue the "accomplices". *Cf.* D. Moseley, *The Knowledge Requirement of Contributory Infringement and the Aro Case*, 47 J. PAT. OFF SOC'Y 98, 103 (1965).

[6] The first case to actually use the term "contributory infringement" was *Snyder* v. *Burnell*, 29 F. Cas. 47 (C.C. S.D.N.Y. 1886).

[7] Plaintiff in arguing that § 271(d) expressly sanctions its licensing policies, maintains that "[i]n the event that at some future time a substantial commercial use for propanil should arise in this country which does not infringe the patent at bar, Rohm and Haas then would modify its licensing policy since the Section 271(d) exception would no longer apply". In its complaint plaintiff charges defendants with actively inducing infringement, under § 271(d), as well as contributory infringement, under § 271(c). Throughout its memorandum filed in opposition to defendants' motion for partial summary judgment, plaintiff urges that its own conduct vis-a-vis patent misuse under § 271(d) should be sanctioned or condemned depending solely upon whether propanil is determined to be a staple or non-staple article. Nowhere in the language of § 271(d) has Congress

limited or otherwise defined patent misuse by reference to the staple or nonstaple nature of an unpatented component. For reasons set out in *Fromberg, Inc.* v. *Thornhill,* 315 F.2d 407, 414-415 note 20 (5th Cir. 1967), and Section III.B.2., *infra,* this Court has concluded that the nature of a component article of a patented combination is germane only to the definition of a contributory infringer under § 271(c); it should not confuse analysis of the patentee's conduct under § 271(d) for purposes of determining patent misuse *vel non.*

[8] *E. g.,* J. Scafetta, *Ten Years After Aro II: The Effect of Patent Act § 271 on the Patent Misuse Doctrine,* 26 S. CAR. L. REV. 539 (1975), reprinted in 58 J. PAT. OFF. SOC'Y 69 (1976) (hereinafter *Scafetta*); C. Miller, *Some Views on the Law of Patent Infringement by Inducement,* 53 J. PAT. OFF. SOC'Y 86, 94-97 (1971); *Note,* 70 YALE L. J. 649, 656-660 (1961); *Comment, Note,* 66 HARV. L. REV. 909 (1953).

[9] *Deep South Packing Co.* v. *Laitram Corp.,* 406 U.S. 518, 530 (1971); *Aro Mfg. Co., Inc.* v *.Convertible Top Replacement Co., Inc.,* 365 U.S. 336, 347, n.2 (1961) (Black, J., concurring). Mr. Crumpacker, a congressman who participated in the hearings as a member of the patent subcommittee of the House, is purported to have stated that:

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> ". . . this colloquy is almost entirely meaningless, it being merely an exchange of pleasantries by some senators having little, if any familiarity with the subject matter they were discussing.[21] [21 . . . . Any senator or representative who got as far as reading the title of the bill would see it was a bill to *revise* and codify the laws.]"

J. Scafetta, note 8, *supra* at 558. While the Court agrees that little weight should be accorded to this colloquy between senators on the floor, great weight must be accorded to the presumption that, in citing this exchange on at least two occasions, the Supreme Court has concluded that the result in *Mercoid* has not been overruled.

The Court has closely studied the Scafetta article, note 8, *supra,* for two reasons. First, it is the most recent as well as the most comprehensive commentary published on the doctrine of patent misuse. Second, it has been graced by the Robert C. Watson Award for 1975 from the American Patent Law Association for the best publication prepared by an author, while a student, on a "subject of primary importance to the patent system". *See* 58 J. PAT. OFF. SOC'Y, 69 (1976). The collision in this case of

the policies underpinning the patent laws and the antitrust laws is graphically illuminated by Scafetta's assault on the views of the Justice Department and the American Bar Association Section on Antitrust Law, which coincide with this Court's finding of patent misuse. Scafetta, *supra* at 589. *See* ABA ANTITRUST SECTION 339-41 (1975).

Based primarily on his interpretation of the Supreme Court's opinion in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.,* 377 U.S. 476 (1964), Mr. Scafetta concluded in his article that the enactment of § 271 effectively overruled the result as well as the broad dictum in the *Mercoid* decisions. For reasons set out in Section III.C., *infra,* this Court disagrees. Moreover, the exploitation pursued in the present case transcends the conduct which confronted the Supreme Court in *Mercoid.* Section III.A., *supra.*

[10] Mr. Rich also stated before the committee that it was his opinion that § 271 covered "the *Mercoid* type of situation", Hearings, *supra* at 174, which tends to support the conclusion that the results in *Mercoid* would be changed by § 271(d). This Court has determined that § 271(d) sanctions the conduct of a patent owner only if the three provisions of this paragraph comprehensively define that conduct. Any conduct of patent exploitation which falls outside of § 271(d) requires the Court to determine whether the judicial doctrine of patent misuse is appropriate. Mr. Rich's construction of § 271(d) to senators prior to its enactment supports this analysis. For reasons set out in the following paragraphs, the Court has concluded that the plaintiff in this case has exploited its method patent in a manner exceeding the acts specifically set out in § 271(d). Moreover, a settled public policy against extending patents to

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unpatented articles should not be overridden by the general terms of a statute which do not establish with certainty a legislative intent to depart from that policy. *See United States* v. *Sweet,* 245 U.S. 563, 572 (1918). *See also Deep South Packing Co.* v. *Laitram Corp.,* 406 U.S. 518, 531 (1971).

[11] Of course, if defendants were licensed by plaintiff to label containers of propanil with instructions setting out plaintiff's patent, as are plaintiff's propanil customers, defendants would not be contributory infringers.

[12] *E.g., Deepsouth Packing* v. *Laitram,* 406 U.S. 518, 528 (1972); *Blonder-Tongue* v. *University Foundation,* 402 U.S. 313, 343-44 (1970); *Fromberg, Inc.* v. *Thornhill,* 315 F.2d 407, 412 (5th

Cir. 1963) ("[The effort to] extend [the patent monopoly] to unpatented materials which are used in, or consumed by, the patented machine, process or device . . . constitutes patent misuse"). *Cf.* M. Nelson, *Mercoid-Type Misuse is Alive,* 56 J. PAT. OFF. SOC'Y 134 passim (1974).

[13] The context of this statement in the *Aro II* opinion is somewhat confusing; in the midst of a discussion of the elements of contributory infringement, the Court digresses briefly to touch on an element of patent misuse. It is clear from this passage, however, that the Supreme Court in *Aro II* did not interpret § 271 to overrule the result in the *Mercoid* decisions.

[14] ". . . [W]e find the Fifth Circuit's definition unacceptable because it collides head on with a line of decisions so firmly embedded in our patent law as to be unassailable absent a congressional recasting of the statute.

"We cannot endorse the view that the 'substantial manufacture of the constituent parts of [a] machine' constitutes direct infringement when we have so often held that a combination patent protects only against the operable assembly of the whole and not the manufacture of its parts. 'For as we pointed out in *Mercoid* v. *Mid-Continent Investment Co.,* [320 U.S. 661, 676] a patent on a combination is a patent on the assembled or functioning whole, not on the separate parts.' *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.,* 320 U.S. 680, 684 (1944). *See also Leeds & Catlin Co.* v. *Victor Talking Machine Co.,* 213 U.S. 301:

> 'A combination is a union of elements, which may be partly old and partly new, or wholly old or wholly new. But whether new or old, the combination is a means — an invention — distinct from them.' *Id.* at 318.

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> " '[O]ne element is not the combination. Indeed, all of the elements are not. To be that — to be identical with the invention of the combination — they must be united by the same operative law.' *Id.* at 320.

And *see Brown* v. *Guild,* 23 Wall. 181 (1874). In sum,

> '[i]f anything is settled in the patent law, it is that the combination patent covers only the totality of the elements in the claim and that no element, separately viewed, is within the grant.' *Aro Mfg. Co.* v. *Convertible Top Replacement Co.,* 365 U.S. at 344."

406 U.S. at 528.

[15] The Supreme Court in *Blonder-Tongue* quoted the following passage from *Mercoid I, supra,* 320 U.S. at 666:

> " 'The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly. The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use.' " 402 U.S. at 343-344.

[16] It should be noted, however, that plaintiff's heavy reliance on *Aro II* suffers from the same infirmity.

[17] "These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles." *United States* v. *Loew's, Inc.,* 371 U.S. 38, 46 (1962).

"Among other restrictions on him, he [the patentee] may not condition the right to use his patent on the licensed's agreement to purchase, use, or sell, or not to purchase, use or sell, another article of commerce not within the scope of his patent monopoly." *Zenith Radio Corp.* v. *Hazeltine Research, Inc.,* 395 U.S. 100, 136 (1969).

[18] ". . . [O]ne must begin with the rule that a patent protects only the [patented] machine in its totality and not its individual unassembled elements . . . . The purpose behind the *Brown, Aro, Mercoid* rule is to prevent the patentee from exercising exclusive control over the constituent elements of his patented machine. The public has a right to these elements. . . ." *Laitram Corp.* v. *Deep South Packing Co., Inc.,* 443 F.2d 936 (5th Cir. 1971), *rev'd on other grounds,* 406 U.S. 318 (1971).

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[19] *Ansul Co.* v. *Uniroyal, Inc.,* 306 F. Supp. 541 (S.D.N.Y. 1969), *aff'd* 448 F.2d 872 (2d Cir. 1971), *cert. denied,* 404 U.S. 1018 (1972); *National Foam System* v. *Urquhart,* 202 F.2d 659 (3d Cir. 1953).

[20] As the Court noted in Section III.A.3., *supra,* plaintiff with its licensing policy attempts to exploit the Wilson patent in a manner not wholly analogous to the efforts of the patent owner in *Mercoid.* Also, it is not entirely clear to what extent the Supreme Court in arriving at its conclusions in *Mercoid* scrutinized the reasonableness of the patent owner's licensing efforts. The Court has determined that the enactment of § 271

does not now permit a patent owner to monopolize the sale of unpatented articles, whether they are nonstaple components or otherwise. The effect of this order compels the patent owner marketing unpatented, nonstaple components of his combination patent to first offer licenses to others marketing that component before it seeks equitable relief for contributory infringement. Although the act of bringing the suit is expressly sanctioned by § 271(d)(3), and therefore cannot serve as the basis for a finding of patent misuse, it does not follow that every patent owner who brings a suit for infringement is thereby immunized against this defense. Rather, the patent owner's acts antecedent to the filing of the suit constitute the basis for a finding of patent misuse *vel non*.

It would be premature for this Court to now consider reasonable royalty rates or the number of offers necessary in order to dissipate the misuse arising from attempts to monopolize the sale of propanil. It is sufficient in this interlocutory order to conclude simply that § 271 does not legitimize the monopoly.

[21] "Such a decree should, of course, be so framed as that it will not permit an unreformed and unrepentant plaintiff to obtain the fruits of bringing a defendant to book for his wrong doing, unless and until proper amends are made by plaintiff for his own wrong doing. Equally, of course, [the Court shoud not countenance] a defendant's wrong doing in deliberately stealing the fruits of plaintiff's invention by permitting him, by the simple device of the pot calling the kettle black, to continue to escape accountability. In short, the decree should, if at all possible, be so drawn as to protect the public from the continuing wrong doing of the plaintiff in misusing its patents and the plaintiff and the public from the continuing wrong doing of defendant in deliberately pirating plaintiff's invention." 186 F.2d at 369.

* * * *

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IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS COMPANY, a corporation,
Plaintiff,

v.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, AND HELENA CHEMICAL COMPANY, corporations,
Defendants.

DEFENDANTS DAWSON CHEMICAL COMPANY'S, CRYSTAL MANUFACTURING CORPORATION'S, AND CRYSTAL CHEMICAL COMPANY'S MOTION FOR RECONSIDERATION OF THE COURT'S DECISION NOT TO DISMISS PLAINTIFF'S COMPLAINT

Defendants Dawson Chemical Company, Crystal Manufacturing Corporation, and Crystal Chemical Company, hereinafter referred to as Defendants, respectfully request the Court to reconsider its decision not to dismiss Count 1 of Plaintiff's complaint. In support thereof, Defendants would show the following:

1. On November 11, 1974, Defendants moved for summary judgment dismissing Plaintiff's complaint on the ground that the undisputed facts in this case establish

patent misuse as a matter of law. In its decision filed August 10, 1976, the Court found, as a matter of law, that Plaintiff has misused and is misusing its patent. Because of allegations relating to Defendants' conduct, however, the Court declined to dismiss Plaintiff's complaint as requested.

2. As the attached memorandum will demonstrate, by virtue of its finding that the Plaintiff has misused its patent on which this suit is based, the Court should dismiss

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the suit, without regard to the conduct of the Defendants.

Should the Court conclude, however, that, based on Defendants' conduct, it has discretion to retain this suit even though it has found the Plaintiff to have misused the patent in suit, movant nonetheless would show that Defendants' conduct, viewed most favorably to the Plaintiff, is not of a nature that would warrant such retention, but instead constitutes nothing more than a sale of an unpatented chemical with instructions for proper use of the chemical printed on the chemical's package as required by the Federal Environmental Pesticide Control Act of 1972.

Respectfully submitted,

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CERTIFICATE OF SERVICE (OMITTED)

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IN THE
UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION No. 74-H-790

ROHM AND HAAS COMPANY, a corporation,
Plaintiff,

v.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, AND HELENA CHEMICAL COMPANY, corporations,
Defendants.

MEMORANDUM IN SUPPORT OF DEFENDANTS' MOTION FOR RECONSIDERATION OF THE COURT'S DECISION NOT TO DISMISS PLAINTIFF'S COMPLAINT

Introduction

In the decision filed August 10, 1976, the Court held that the plaintiff, as a matter of law, has misused and is misusing the patent in suit (Memorandum and Opinion at 2 and 29). Yet the Court did not dismiss the plaintiff's complaint as requested by Defendants in their motion for partial summary judgment.

The apparent basis for the Court's decision not to dismiss is the allegation of Plaintiff Rohm and Haas that Defendants have both induced infringement of and contributorily

infringed plaintiff's patent. The Court indicates that such conduct, if it exists, would constitute "piracy" of plaintiff's invention. Defendants first submit that a court should dismiss a patent infringement suit if it finds the plaintiff is misusing the patent, regardless of the defendant's conduct. Defendants further submit that conduct in selling an unpatented and unpatentable chemical compound which has been

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labelled as required by the Federal Environmental Pesticide Control Act of 1972 cannot be regarded as wrongful.

I.
The Court Should Dismiss Plaintiff's Patent Infringement Action Upon Finding that the Plaintiff has Misused the Patent in Suit

The Court in the present case notes that *Morton Salt Co.* v. *G. S. Suppiger Co.,* 314 U.S. 488, 493, 86 L.Ed 363 (1941), "indicated that when misuse is established as a matter of law prior to trial, the patent owner's complaint *should be dismissed* without prejudice to purge the misuse and thereafter seek relief". (Memorandum and Opinion at 31). The Court then distinguishes the present case from *Morton Salt* by stating "plaintiff has alleged both contributory infringement and active inducement of infringement". *Id.* The facts of the present case, however, are not similarly distinguishable from *B. B. Chemical Co.* v. *Ellis,* 314 U.S. 495, 86 L.Ed. 367 (1941). In *B. B. Chemical* the patent owner argued that the defendant's "acts of infringement... were not limited to the sale of material for use by the patented method..., but amounted to active inducement of infringement...." 314 U.S. at 497-98; 8 L.Ed. at 370. In direct response to this argument, the Supreme Court stated:

> "[I]n view of petitioner's use of the patent as the means of establishing a limited monopoly in its unpatented materials, and for the reasons given in the Morton Salt Co. Case, we hold that the maintenance of this suit to restrain *any form of infringement* is contrary to public policy, and that the district court rightly dismissed it." *Id.* (emphasis added).

The Court in the present case has stated that the action in *B. B. Chemical* "was defeated by the application of

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patent misuse on facts very similar to the cause here pending". (Memorandum and Opinion at 11). It was on such "similar facts" that the Supreme Court held the patent owner's suit to restrain "any form of infringement" to be "contrary to public policy". Under such firm direction of the Supreme Court, the court in the present case is obligated to dismiss plaintiff's complaint. See *Rex Chainbelt Inc.* v. *Harco Products, Inc.*, 512 F.2d 993 (9 Cir. 1975), *cert. denied*, 46 L.Ed. 2d 49 (1975), *aff'g Rex Chainbelt Inc.* v. *DFC Co.*, 1974 Trade Cases P75,152 (C.D. Cal. 1974).

In the present case, the court has relied to a great extent upon the opinion of the Fifth Circuit in *Gray Tool Co.* v. *Humble Oil & Refining Co.*, 186 F.2d 365 (5 Cir 1951), *cert. denied*, 341 U.S. 934. *Gray*, however, should not be interpreted as holding that where a defendant is guilty of wrongdoing in relation to the patent, the court may retain the infringement suit of a patent owner that has misused its patent. Such an interpretation is not justified for several reasons. First, such a holding would go against the clear dictates of the Supreme Court in *B. B. Chemical*. Second, the actual holding in *Gray* was that a judge may not draw fact inferences on a motion for summary judgment and

that, because the lower court's finding of misuse required making fact inferences, such finding was improper. Therefore, the statements in *Gray* referring to procedures to follow if misuse is properly found to exist are clearly dictum. Third, the *Gray* court relied heavily upon *Paul E. Hawkinson Co.* v. *Dennis*, 166 F.2d 61 (5 Cir 1948), an opinion authored by the judge who wrote the *Gray* opinion, where the court stated:

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> "If, therefore, the district judge was right in the conclusion that it was established as matter not of fact but of law, that is by undisputed evidence and the inescapable inferences to be drawn therefrom, that plaintiff had been and still was misusing its patent, the judgment ought to be affirmed, without prejudice, of course, to plaintiff's right to again sue when it can show that it has purged itself of wrongful uses and practices." 166 F.2d at 63.

The "judgment" to which the court was referring was dismissal of plaintiff's complaint. 166 F.2d at 62. Fourth, the *Gray* court notes that *Morton Salt* and another case disposed of on summary judgment applied the principle that:

> "no patentee can license or refuse to license upon a condition that the licensee will, in the use of the unpatented materials, use only such materials as it purchased from the patentee . . ." 186 F.2d at 368.

The *Gray* court does not dispute the propriety of a summary judgment dismissal based on such facts, but merely distinguishes the *Gray* facts by noting, "it has never been . . . justly decided that the mere effort, as here, to prevent a direct infringement was in itself a misuse". 186 F.2d at 369. Thus, *Gray* does not hold that such a summary judgment dismissal is improper. Fifth, the facts in *Gray* indi-

cate that the defendant's conduct was of a completely different nature than that of Defendants in the present case: the "defendant has itself obtained a monopoly in the field covered by plaintiff's patent". 186 F.2d at 367.

The Supreme Court in *B. B. Chemical* has directed that a patent that has been misused will not be enforced unless the misuse has been purged. The Fifth Circuit in *Gray* does not direct otherwise. Therefore, Plaintiff Rohm & Haas' complaint must be dismissed regardless of Defendants' conduct.

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II.

Defendant's Conduct Cannot Be Regarded as Wrongful

In its opinion, the Court notes that Plaintiff Rohm & Haas has charged the Defendants with both contributory infringement due to Defendants' sales of propanil, and active inducement of infringement due to Defendants' instructing purchasers through labels to use the propanil in an infringing manner. The court has characterized the totality of such conduct, if it exists, as a "wrongdoing" which may be averted by "[a]ppropriate relief", despite Plaintiff Rohm & Haas' misuse of the patent. (Memorandum and Opinion at 31).

Defendants submit that there is nothing wrongful in their instructing purchasers of propanil, by means of labels attached to the propanil containers, how to use the propanil. It would be illegal for Defendants to sell the propanil *without* such instructions on the labels. The Federal Environmental Pesticide Control Act of 1972 makes it unlawful to:

> "distribute, sell, offer for sale, hold for sale, ship, deliver for shipment . . . to any person . . . any pesticide which is adulterated or misbranded." 7 U.S.C. § 136 (a)(1)(E)

A "pesticide" includes "any substance or mixture of substances intended for use as a plant regulator . . ." 7 U.S.C. § 136(u). "Plant regulator" means:

> "any substance or mixture of substances intended, through physiological action, for accelerating or retarding the rate of growth or rate of maturation, or for otherwise altering the behavior of plants or the produce thereof, but shall not include substances to the extent that they are intended as plant nutrients, trace elements, nutritional chemicals, plant inoculants, and soil amendments." 7 U.S.C. § 136 (v).

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A pesticide is misbranded if:

> "the labelling accompanying it does not contain directions for use which are necessary for effecting the purpose for which the product is intended and if complied with . . . are adequate to protect health and the environment." 7 U.S.C. § 136 (q).

Under this language it is clear that sale of propanil is unlawful unless the propanil is accompanied with a label containing directions for intended use. The only commercial use for propanil that is known to the Defendants is in the practice of plaintiff's patented method. Therefore, "directions for use which are necessary for effecting the purpose for which the product is intended" will necessarily instruct the user to infringe plaintiff's patent. If Defendants were to sell propanil and not so instruct the purchaser, they would be liable for civil penalties of as much as $5,000 for each offense and criminal penalties of as much as $25,000 and one year imprisonment. 7 U.S.C. § 136 1.

In view of such a statute and Plaintiff Rohm & Haas' refusal to license others to use its patented method unless they purchase propanil from Rohm & Haas, Defendants' only alternative to their present course of action is to abstain entirely from the sale of propanil, thereby establishing Plaintiff's monopoly which the Court refused to effectuate. Defendants should not be penalized for following their present practice when they have no acceptable option available. By the same token, Plaintiff Rohm & Haas Co. should not be allowed to maintain its complaint merely by virtue of Defendants' conduct when, by virtue of such plaintiff's own conduct, such defendant has been foreclosed from a more acceptable course of conduct.

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III.

If Plaintiff Is Unable to Enforce Its Patent, No Remedy Is Available to It

The decision of *B. B. Chemical,* cited in Part I of this memorandum, shows that Plaintiff Rohm & Haas is not entitled to enforce its patent. Because the plaintiff does not have the protection of the patent laws, no decree may be fashioned prohibiting Defendants' conduct. *Sears, Roebuck & Co.* v. *Stiffel Co.,* 376 U. S. 225, 229-32, 11 L.Ed. 2d 661, 665-57 (1964); *Compico Corp.* v. *Day-Brite Lighting, Inc.,* 376 U.S. 234, 237-38, 11 L.Ed. 2d 669,672 (1964). Therefore, plaintiff's complaint must be dismissed.

WHEREFORE, Defendants respectively requests that the Court to reconsider its decision not to dismiss plaintiff's complaint.

By /s/ JOHN L. MCCONN, JR.
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CERTIFICATE OF SERVICE (OMITTED)

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IN THE
UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION No. 74-H-790

ROHM AND HAAS CO.,
Plaintiff,

v.

DAWSON CHEMICAL COMPANY, INC., CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, INC., AND HELENA CHEMICAL COMPANY,
Defendants.

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John L. McConn, Jr., Butler, Binion, Rice, Cook & Knapp, Houston, Texas, for defendants Dawson Chemical Co., Inc., Crystal Manufacturing Corp. and Crystal Chemical Co., Inc.
B. R. Pravel, Pravel and Wilson, Houston Texas, for defendant Helena Chemical Co.

MEMORANDUM AND ORDER

I. INTRODUCTION

This is a suit for patent infringement of a patent owned by plaintiff Rohm and Haas Company. The suit was filed on the day the patent was issued, June 11, 1974, and the parties thereafter entered into a stipulation of the facts in

the hope of presenting to the Court for summary judgment a clear-cut question of law. On November 11, 1974, defendants moved for partial summary judgment on the ground that the stipulated facts established patent misuse as a matter of law. The Court in its Memorandum and Opinion of August 10, 1976, found as a matter of law that plaintiff had in the past misused and continued to misuse its patent and therefore

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granted summary judgment as to the defense of misuse. Despite the finding of misuse, the Court at that time declined to dismiss the action.

II. PENDING MOTIONS

Defendants now urge the Court by way of motions to reconsider its decision not to dismiss plaintiff's complaint. In the alternative, defendants seek an order for immediate appeal under 28 U.S.C. § 1292(b). Defendants Dawson Chemical Company, Crystal Manufacturing Company and Crystal Chemical Company have joined in one such motion. Defendant Helena Chemical Company has submitted a separate motion. In view of the substantial likeness of these motions, they will be treated together by the Court for purposes of this opinion. Helena Chemical Company has also filed a motion for stay of depositions until this Court has resolved the pending motions for reconsideration. Plaintiff opposes the motions for reconsideration of the refusal to dismiss, but joins defendant Helena Chemical Company by way of cross-motion in requesting an order permitting an immediate appeal under 28 U.S.C. § 1292(b). Based upon the reasons and analysis that follow, defendants' motion to reconsider is granted, and the case is dismissed. All other motions are denied as moot.

III. THE APPLICABLE CASE LAW

A. Defendant's Contentions

Defendants urge that in view of the Court's previous finding of misuse in its opinion of August 10, 1976, the Court is now required to dismiss plaintiff's action for infringement.

1. *Morton Salt Co.* v. *G. S. Suppiger Co.*

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Defendants contend that dismissal is required under the holdings in *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488, 86 L.Ed. 363 (1942) (hereinafter *Morton Salt*), and *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495, 86 L.Ed. 367 (1942) (hereinafter *B. B. Chemical*), which are the leading cases in this area of the law.

In *Morton Salt, supra,* the G. S. Suppiger Company held a patent on a mechine for depositing salt tablets, a device used in the canning industry to add predetermined amounts of salt in tablet form to the contents of cans. The G. S. Suppiger Company leased these patented machines to commercial canners under licenses that specified that only the subsidiary's salt tablets could be used with the leased machines. The Supreme Court agreed with the trial court that the company in so doing was making use of the patent to restrain competition in the marketing of unpatented articles and was creating a limited monopoly in salt tablets that was not within the monopoly granted by the patent. *Morton Salt, supra,* 314 U.S. at 491, 86 L.Ed. at 365. The trial court, after its finding of misuse, dismissed the cause without resolving the remaining issues of validity and infringement. The Supreme Court held the maintenance of a suit under such circumstances was contrary to public

policy and that the district court had rightly dismissed for want of equity. 314 U.S. at 494, 86 L.Ed. at 367. The Court's reasoning in approving such dismissal was expressed thus:

> "Where the patent is used as a means of restraining competition with the patentee's sale of an unpatented product, the successful prosecution of an infringement suit . . . is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent . . . Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is

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> "made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated."

Morton Salt, 314 U.S. at 493, 86 L.Ed. at 366. *Morton Salt* thus makes it clear that where misuse of a patent is found to exist, equitable and public policy considerations dictate the withholding of relief while such misuse continues extant.

2. *B. B. Chemical Co.* v. *Ellis*

The companion case to *Morton Salt, supra,* is *B. B. Chemical Co.* v. *Ellis,* 314 U.S. 495, 86 L.Ed. 367 (1942), decided the same day. Petitioner in that case was the owner of a method patent for reinforcing insoles in shoe manufacture. Petitioner sought an injunction prohibiting infringement, alleging that the acts of infringement amounted to active inducement of infringement by the shoe manufacturers and to cooperation with their infringing acts. Respondents set up as a defense petitioner's misuse of the patent by permitting its use only with the unpatented ma-

terials sold by petitioner. The Supreme Court affirmed the district court's dismissal, saying:

> "[I]n view of petitioner's use of the patent as the means of establishing a limited monopoly in its unpatented materials, and for the reasons given in our opinion in the Morton Salt Co. case, we hold that the maintenance of this suit to restrain *any form of infringement* is contrary to public policy, and that the district court rightly dismissed it." (emphasis added)

Id. at 497-98. The result in *B. B. Chemical* thus indicates that the type of infringement alleged, whether contributory infringement or active inducement of infringement, is of no consequence where misuse exists. So long as there is an existing patent misuse, the courts will withhold relief on claims of infringement, regardless of the type of infringement alleged. Thus, under *B. B. Chemical,* plaintiff's allegation

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of active inducement of infringement by defendants will have no effect in the context of deciding whether dismissal is appropriate in the instant case.

3. *Gray Tool Co.* v. *Humble Oil & Refining Co.*

Defendants contend that the case of *Gray Tool Co.* v. *Humble Oil & Refining Co.,* 186 F.2d 365 (5th Cir. 1951) is distinguishable from the instant case and from the decision of the Supreme Court in *Morton Salt Co., supra,* and *B. B. Chemical Co., supra.* (Memorandum in Support of Defendant's Motion for Reconsideration of the Court's Decision Not to Dismiss Plaintiff's Complaint, p. 3). The Court is in agreement. A careful reading of the *Gray* case discloses a different situation from that existing in the in-

stant case. In *Gray,* the district court in an action for patent infringement made a finding of patent misuse and dismissed the action on summary judgment. On appeal the Fifth Circuit found that the record did not support the district court's conclusion that the defense of misuse had been established as a matter of law. The Court of Appeals said (p. 367):

> "Nothing in the pleadings, in the evidence given, or in the admissions made by plaintiff, established as matter of law that it was misusing its patents in an attempt to obtain a monopoly in violation of the applicable rule."

In essence, the Court of Appeals in *Gray* overturned the district court's finding of misuse.[1] Because the misuse finding was rejected in *Gray,* the *Gray* court's refusal to dismiss in no way conflicts with the decisions of the Supreme Court in *Morton Salt, supra,* and *B. B. Chemical, supra,* both of which decisions were made in light of findings of misuse. Thus, the holding in *Gray* in no way diminishes or modifies the effect of the holdings in *Morton Salt* and *B. B. Chemical* on the present case.

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B. Plaintiff's Contentions

Plaintiff urges that it be allowed to litigate the remaining issues of validity and infringement in this case, despite the findings of misuse. In so urging plaintiff cites to the Court several cases which plaintiff contends entitle it to maintain its action for validity and infringement. The authorities so cited are reviewed below.

1. *W. L. Gore & Associates* v. *Carlisle Corp.*

In the case of *W. L. Gore & Associates, Inc.* v. *Carlisle Corp.,* 381 F. Supp. 680 (D. Del. 1974), the plaintiff was the owner of a patent relating to the manufacture of a flat mul-

ticonductor ribbon cable used to transmit electrical signals. The court there found that plaintiff's attempted reciprocal dealing in relation to the patent constituted patent misuse. *Id.* at 706. However, the court then found that plaintiff's unlawful conduct had ended no later than January 8, 1973, when all pending license offers were withdrawn. Thus, the misuse had ceased over a year and a half before the court rendered its decision on September 9, 1974. The court found one of the patents at issue to be valid and infringed, and concluded that the plaintiff was entitled to an injunction prohibiting further infringement, despite the initial finding of misuse.

The Court articulated its reasoning as follows:

> "The considerations for remedying the patent misuse here are somewhat different. A finding that a patent owner has misused its patent does not operate to invalidate the patent, and full rights to enforce a patent that has been misused may be reinstated when it can be shown 'that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated.' Morton Salt Co. v. Suppiger, supra at 492-493, 62 S.Ct. at 405. Plainly, plaintiff abandoned its improper practice by January 8, 1973."

Id. at 706. Having found the misuse purged, the court then

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went on to apply the exhortation of *Gray, supra,* which urges that in devising a remedy for patent misuse, a court should take pains neither to reward the plaintiff for its misuse nor to put a premium on the defendant's wrongdoing. *Id.* at 706. It is to be noted that the *Gray* case came into play only subsequent to the court's finding that the misuse had been purged.

2. *Morrill* v. *Automatic Industries, Inc.*

In *Morrill* v. *Automatic Industries, Inc.,* 93 F. Supp. 697 (W.D. Mo. 1950), plaintiffs brought suit against Automatic Industries, Inc., for infringement of a patent for a rotary side delivery rake, used for raking cut hay and other grasses into windrows. The court found that plaintiffs' patent was valid, and that the patent had been infringed by the defendant. Automatic Industries defended on the ground that plaintiff had so misused their patent rights as to have disqualified themselves from seeking equitable relief on the patents. The court found that the claimed misuse had been purged January 1, 1950, some nine months before the court rendered its opinion, and held plaintiff entitled to recover damages for infringement. The manner in which the alleged misuse was purged is described by the court at page 712:

> "Before closing the evidence herein, plaintiffs introduced in evidence documents revealing a modification of the above Crowe license, effective as of January 1, 1950, and deleting therefrom all matters which defendant contends establishes said license agreement as being against public policy and a misuse of patent rights. As so modified, said license agreement is no longer subject to the contention defendant makes against the provisions of the original Crowe license."

The court specifically found the holding in *Morton Salt* inapplicable, but this finding was made only after the court

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had previously held that the patent misuse had been purged as described in the passage quoted above.

3. *Sylvania Industrial Corporation* v. *Visking Corporation*

In Sylvania Industrial Corporation v. *Visking Corporation,* 132 F.2d 947 (4th Cir. 1943), the controversy centered on four patents of the Visking Corporation which related to artificial sausage casings. On April 3, 1941, the patents were found valid and infringed, but the district court initially denied relief to the plaintiff patent owner on the ground that plaintiff had attempted by its method of doing business and by improper use of the patents to secure a limited monopoly in unprinted regenerated cellulose sausage casing, an unpatented material. In subsequent supplemental proceedings the plaintiff offered evidence that satisfied the district court judge that it had purged itself of its illegal conduct. Therefore, on March 13, 1942, the district court filed an interlocutory decree holding that the plaintiff had by May 12, 1941, purged itself of misuse, and holding further than the plaintiff was entitled to an injunction against future infringement and an accounting from that date for past infringement. Once again, relief was granted on the patent only after a showing that the misuse had been purged.

IV. CONCLUSIONS BASED ON APPLICABLE CASE LAW

There is one feature that stands out quite clearly in all of the cases urged by plaintiff as supporting the theory that plaintiff is entitled to pursue its cause of action despite the finding of misuse. This feature is that in all three cases cited by plaintiff and analyzed above (III.B.), the party as to whom a finding of misuse had been made was allowed to pursue relief only after the court found the

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misuse purged. Equally clear are the holdings of the Supreme Court in *Morton Salt* and *B. B. Chemical* which

stand for the proposition that where misuse is found to exist and remains unpurged, a court will deny relief to the party guilty of misuse, and that dismissal of the cause in such instance is proper.

However, the Court cannot agree with defendants that dismissal is required. The net effect of the caselaw set forth by the parties on this topic is, in the opinion of the Court, to make dismissal legally proper, but not required where some alternative route will have the effect of denying the misusing party relief on the patent and, at the same time, offer some advantage in the form of judicial efficiency or justice to the parties. One possible alternative of this sort would be a stay of the case following a finding of unpurged misuse. Such a stay would normally include a moratorium on discovery so as to deny the misusing party relief. While the parties have not cited, nor is the Court aware of, any cases in which dismissal did not follow a finding of unpurged misuse, the Court believes that the use of such a remedy, where it accomplishes the purposes expressed in *Morton Salt, supra,* is in keeping with the traditionally flexible nature of equitable remedies.

V. FACTORS IN COURT'S DECISION TO DISMISS RATHER THAN TO STAY THIS ACTION

The Court, after careful consideration of the applicable caselaw, the briefs of counsel and the facts of this case, has opted to dismiss this action rather than stay it. Several factors entered into the Court's thinking in arriving at this result. First, there has been no attempt by the plaintiff to show that it has purged or will purge itself of its misuse of the patent. On the contrary, plaintiff

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has steadfastly refused to issue licenses or take any action which this Court might interpret as an attempt to purge.

Thus, there can be no motive to stay based upon a purge of misuse being either in process or imminent. Secondly, any damages to plaintiff are merely speculative at this point since damages for infringement are not available during a period of misuse. *Sylvania Industrial Corp.* v. *Visking, supra* at 957. It is clear that improper use does not invalidate a patent, and that if a patent owner purges himself of the misuse he may then enforce his patent and recover damages for infringement occurring thereafter. *Novadel-Agene Corp.* v. *Penn,* 119 F.2d 764, 766-67 (5th Cir. 1941). However, in the case at bar, any purge is likely to involve the issuance of licenses to defendants, thus precluding the possibility of further infringement since defendants would then be using the patents in accordance with the license. Even assuming that plaintiff after purging itself of misuse could assert a claim to relief, plaintiff will not by the dismissal be left without remedy, since plaintiff may after purging itself of misuse come in and re-file. *Novadel-Agene Corp.* v. *Penn, supra.*

Third, both parties have clearly indicated to the Court their wish and intent to appeal this case. Both parties have submitted motions requesting this Court to certify the case for appeal under 28 U.S.C. § 1292(b), which governs appeal of interlocutory matters. One of the requirements for certification under section 1292(b) is that an immediate appeal may materially advance the ultimate termination of the litigation. Both plaintiff and one of the defendants have in the course of urging this Court to certify under section 1292(b) represented to this Court that a holding by the Fifth Circuit Court of Appeals on the question of misuse is

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likely to dispose of this case either entirely or almost entirely, whether the Court of Appeals affirms or reverses the

holding of this Court. (*See* Plaintiff's Memorandum, filed September 17, 1976, p. 3; Memorandum of Defendant Helena Chemical Co., filed September 13, 1976, p. 5). Assuming these representations to be correct, there would seem to be no advantage in staying the case. Additionally, dismissal of the complaint will allow plaintiff to proceed immediately with a direct appeal in this case, rather than forcing plaintiff to attempt to bring itself within the purview of section 1292(b) in order to obtain review of this Court's unfavorable (to plaintiff) ruling on the issue of misuse. The totality of the foregoing factors in combination with the applicable caselaw lead this Court to conclude that the interests of justice and of judicial efficiency are better served by a dismissal, rather than by a stay of proceedings, in this case.

VI. CONCLUSION

For the foregoing reason, defendants' motion for reconsideration of the Court's decision not to dismiss plaintiff's complaint is granted; and plaintiff's cause of action should be, and it hereby is, dismissed. Such dismissal is without prejudice to plaintiff's right to re-file upon sufficient showing that it has purged its misuse.

All other pending motions are denied as moot in view of the dismissal.

In regard to this Court's Memorandum and Opinion of August 10, 1976, the portion of that Opinion, V.B., in which

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this Court declined to dismiss is hereby withdrawn, and the instant discussion and ruling are substituted therefor.

DONE at Houston, Texas, this 23rd day of November 1976.

/s/ Carl O. Bue, Jr.
Carl O. Bue, Jr.
United States District Judge

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FOOTNOTE

[1] The Court now notes that the circumstances surrounding the finding of misuse by the district court in *Gray* were in significant contrast to the circumstances in the instant case. Here the parties have agreed that there are sufficient facts upon which to render a summary judgment and have stipulated to those facts for the avowed purpose of enabling this Court to render a decision as a matter of law on the issue of misuse. (Plaintiff's Memorandum, filed September 17, 1976, p. 1). It was in response to these activities of the parties that this Court's order of partial summary judgment on the issue of misuse was entered on August 10, 1976.

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In the

UNITED STATES DISTRICT COURT

For The Southern District of Texas
Houston Division

Civil Action No. 74-H-790

Rohm and Haas Co.,
Plaintiff,

v.

Dawson Chemical Co., Inc., et al,
Defendants.

FINAL JUDGMENT

From a consideration of the pleadings submitted in this cause, it is the opinion of this Court that this action should be and is hereby dismissed.

THIS is a FINAL JUDGMENT.

DONE at Houston, Texas, this 23rd day of November, 1976.

/s/ Carl O. Bue, Jr.
Carl O. Bue, Jr.
United States District Judge

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IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS CO.,
Plaintiff,

v.

DAWSON CHEMICAL CO., INC., ET AL,
Defendants.

NOTICE OF APPEAL

Notice is hereby given that Rohm and Haas Co., Plaintiff above named, hereby appeals to the United States Court of Appeals for the Fifth Circuit from the Final Judgment entered in this action on the 23rd day of November, 1976.

Respectfully submitted,
/s/JAMES C. WINTERS
James C. Winters
Attorney in Charge for
Plaintiff

Of Counsel:
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JAMES & BRIGGS
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Houston, Texas 77002

CERTIFICATE OF SERVICE (OMITTED)

• • •

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IN THE

UNITED STATES DISTRICT COURT

FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

CIVIL ACTION NO. 74-H-790

ROHM AND HAAS COMPANY, a corporation,
Plaintiff,

v.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY, AND HELENA CHEMICAL COMPANY, corporations,
Defendants.

JOINT NOTICE OF APPEAL

Notice is hereby given that Dawson Chemical Company, Crystal Manufacturing Corporation and Crystal Chemical Company (collectively referred to hereinafter as "Crystal"), some of the Defendants above named, hereby appeal to the United States Court of Appeals for the Fifth Circuit from the Final Judgment entered in this action on November 23, 1976 insofar as such Final Judgment dismisses Crystal's counterclaims and denies Crystal its costs,

attorneys' fees, compensatory damages, a trebling of damages and injunctive relief.

Respectfully submitted,

/s/John L. McConn, Jr.,
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In The
UNITED STATES COURT OF APPEALS
For The Fifth Circuit

No. 76-4511

Rohm and Haas Company,
Plaintiff-Appellant Cross-Appelle,

v.

Dawson Chemical Company,
Crystal Manufacturing Corporation,
Crystal Chemical Company, and
Helena Chemical Company,
Defendants-Apellees Cross-Appellants.

APPEALS FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF TEXAS

(July 30, 1979)

Before GEE and VANCE, Circuit Judges, and HUNTER, District Judge.*

GEE, Circuit Judge:

This is an appeal from a grant of summary judgment dismissing plaintiff's claim in a patent infringement suit. It is stipulated that plaintiff-appellant Rohm & Haas Company is sole owner of a patent that describes a method of

* District Judge of the Western District of Louisiana, sitting by designation.

applying a chemical compound, 3, 4-dichloropropionanilide (hereinafter "propanil"), to established crops such as rice so as to inhibit the growth of weeds selectively. Propanil itself is not patented; Rohm & Haas succeeded in having a Monsanto patent on the chemical declared invalid in an earlier suit against it by Monsanto.[1]

Rohm & Haas currently makes propanil and sells it in containers bearing instructions for performing the patented process. By operation of law, purchasers of propanil thus receive implied license to use the patented method. Rohm & Haas does not intend either to license other propanil manufacturers to enable them also to license customers to use the patented method or to license customers to use the method with propanil bought from sources other than Rohm & Haas.

The defendants Helena Chemical Company, Dawson Chemical Company, Crystal Manufacturing Corporation, and Crystal Chemical Company, sold propanil for application to rice crops before Rohm & Haas received its patent. Thereafter they continued to sell propanil, knowing of the patent, and their customers have directly infringed the patent by following the method described on defendants' containers of propanil. Defendants intend to continue making and selling propanil with the same recommendations and instructions.

Alleging most of these facts in its complaint and the additional fact that propanil is a nonstaple that has no substantial noninfringing use,[2] Rohm & Haas brought suit

[1] *Monsanto Co.* v. *Rohm & Haas Co.*, 312 F.Supp. 778 (E.D.Pa 1970), *aff'd*, 456 F.2d 592 (3d Cir.), *cert. denied*, 407 U.S. 934, 92 S.Ct. 2463, 32 L.Ed.2d 817 (1972).

[2] Defendants Helena and Crystal, at least, seem to have conceded this factual matter for the purpose of the present motions.

Two crucial terms in section 271(c), set out fully in the text below, are "staple article" and "commodity of commerce suitable for substantial noninfringing use." The chief draftsman of the provision, Mr. Giles S. Rich, now Associate Judge of the United States Court of Customs and Patent Appeals, has indicated that the terms are not synomymous. *See Infringement Under Section 271 of the Patent Act of 1952*, 35 U.Pat.Off.Soc'y 476, 493 (1953).

For the sake of simplicity in the technical discussions that follow, however, we have used "staple" to mean a commodity or product with substantial uses apart from the patented invention. By "nonstaple" we have meant to denote a product or material *lacking* substantial uses other than infringing uses. This is not necessarily the sense in which similar terms were used by the Supreme Court in early contributory infringement or misuse cases.

Section 271 contains one other requirement — that the component or material "constitut[e] a material part of the invention." We here assume that propanil will also meet this test, since it is the active ingredient in producing the weed-inhibiting effect of the patented method.

against the defendants for injunctive and declaratory relief. It alleged that the defendants were actively inducing infringement of the patent and that their sales amounted to contributory infringement since they knew that propanil is a material part of the patented invention, is especially made or adapted for use in the patent, and has no substantial noninfringing use. In their answers, defendants alleged that Rohm & Haas was not entitled to relief because its licensing program amounted to patent misuse and because its patent was invalid for various reasons. They also counterclaimed, alleging that the Rohm & Haas licensing scheme and other behavior violated the antitrust laws.[3] The licensing program

[3] Some of the additional allegations are rather serious. Defendants charge that for at least two years prior to the issuance of the method patent, Rohm & Haas representatives coerced distributors into refusing to purchase propanil from anyone else by threatening that uncooperative distributors would be cut off from a supply of propanil after the method patent issued. Since the right to exclude is created by the patent grant and an inventor cannot sue anyone for using his invention before the patent is issued, *Gayler* v. *Wilder*, 51 U.S. (10 How.) 477, 493, 13 L.Ed. 504 (1850), such coercive attempts to gain exclusivity before a patent issues may well constitute misuse. Since the court below has not addressed these contentions, we leave them for another day, observing, on the one hand, that such conduct is not purportedly immunized by § 271(d) and, on the other hand, that misuse traditionally bars an infringement suit only until the misuse has been purged.

was specifically attacked as an impermissible tying of purchase of a license under the patent to purchase from Rohm & Haas of the unpatented propanil.

All the parties agree that Rohm & Haas' conduct can be characterized as an attempt to "extend the patent" and thus monopolize the market for the unpatented component — conduct deemed patent misuse under the doctrine of *Mercoid Corp* v. *Mid-Continent Investment Co.*, 320 U.S. 661, 64 S.Ct. 268, 88 L.Ed. 376 (1944). The main point of disagreement for purposes of this appeal is whether 35 U.S.C. § 271(d) reverses the *Mercoid* misuse doctrine when the unpatented component sold is a nonstaple, with no substantial market apart from its use in the patented process. In an able and carefully considered opinion, the district court below concluded that section 271(d) does not immunize Rohm & Haas from charges of patent misuse, and thus he granted the defendants' motion for summary judgment and dismissed the complaint until Rohm & Haas has purged itself of the misuse. Our consideration of the matter has led us to the contrary conclusion; thus we reverse.

We begin by placing in clear view the statute we construe. The simplicity and ostensible clarity of its words belie the complex and delicate questions of interpretation it has spawned — to the delight of commentators. It reads as follows:

Section 271. Infringement of patent

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a

material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

35 U.S.C. § 271 (1952).

By a very plausible construction of these passages, assuming the patent is valid, defendants are contributory infringers because they have sold propanil for use in practicing a patented process, knowing that the chemical, a material part of the inventive method, is not a staple or commodity of commerce, has no substantial noninfringing use, and is especially made or adapted for use in infringing the patent.

By a further tenable reading of the statute, the plaintiff Rohm & Haas has done only acts which under (d) may no longer be deemed patent misuse or illegal extension of the patent. It has "derived revenue" from sales of propanil, conduct that, under (c), constitutes contributory infringement when done by those who, like defendants, act without consent. And it now "seeks to enforce" its patent rights by

suit against defendants' contributory infringement. That it has refused to give licenses either to customers or manufacturers of propanil is of no consequence under this analysis since there is no general policy requiring a patentee to grant explicit licenses in addition to those that arise by operation of law. Moreover, the introductory portion of (d) provides that a patentee may do "one or more" of the enumerated practices. This reinforces the view that a patentee may sell unpatented components while refusing to license others to do the same conduct — sell the unpatented component — without thereby being deemed guilty of misuse.

Assessing plaintiff's conduct through a different lens, defendants argue that what Rohm & Haas has done is *tie* sale of patent rights to purchase of an unpatented element used in carrying out the process. This coercive conditioning of one sale upon another is not mentioned in subsection (d) and therefore survives as a type of misuse sufficient to cause dismissal of plaintiff's suit. Under this analysis, Rohm & Haas is not, in the statutory language, "otherwise entitled to relief," and thus the statute does not immunize its sale of propanil so long as it refuses to license competitors. The statute does not ratify tying of any sort, they claim, and it is even more reprehensible that plaintiff claims such rights regarding a nonstaple. If plaintiff's view prevails, defendants will be entirely foreclosed from any domestic outlet for their product, unlike those who sell mere staples.

Each of these positions is a plausible reading of the bare statute, and each side can cite commentary supporting its particular view.[4] The proper starting place for resolving

[4] Commentary supporting Rohm & Haas' interpretation of § 271 includes, *e. g.*, Note, *Combination Patents: The Right to Prohibit the Sales of Replacement Parts,* 70 Yale L.J. 649 (1961), J. Scafetta, *Ten Years After Aro II: The Effect of Patent Act § 271 on the Patent Misuse Doctrine,* 26 S.Ca.L.Rev. 539 (1975), reprinted in 58 J.Pat.Off.Soc'y 69 (1976).

Commentary tending to support defendants' view of the statute includes, e.g., Note, *Section 271(b) of the Patent Act of 1952: Confusion Codified,* 66 Yale L.J. 132 (1956); Note, *Contributory Infringement and Misuse — The Effect of Section 271 of the Patent Act of 1952,* 66 Harv.L.Rev. 909 (1953).

the conflict is with the statute's legislative history. Before beginning, however, a review of the doctrines of contributory infringement and patent misuse will be helpful in understanding the terms of the debate waged in congressional hearings on the proposed statute.

The doctrine of contributory infringement was a judicial invention designed to give effective protection to patentees, perhaps occasioned by a narrow judicial definition of *direct* infringement whereby one does not infringe unless he, for example, assembles or practices *every* element claimed in a patent. *Prouty* v. *Draper,* 41 U.S. (16 Pet.) 336, 10 L.Ed. 985 (1842).

Under the latter construction, it soon became apparent that one could appropriate the competitive advantages of a patent by, for instance, selling all the parts of a patented device save one and relying on the purchaser, the direct infringer, to supply the final element and thus complete the device. Permitting such conduct would have effectively immunized both the buyer and the seller, since suits against the many direct infringers were difficult and often uneconomical. Applying general tort principles, the courts provided a remedy for the patentee against such sellers by deeming them joint tortfeasors with their customers, the direct infringers. To avoid ensnaring innocent merchants who sold goods that later and without their knowledge were fashioned into infringing combinations by buyers, the courts required proof that a merchant had intended to

encourage infringement. The requisite intent was presumed, however, when the items sold had no use except in the infringing combination.[5]

As will be observed from the above discussion, the contributory infringement doctrine focuses on the conduct of patent infringers, rather than on that of the patentee. The theoretical basis for the doctrine was more general, however. The doctrine rested on particular views about the manner in which patentees should be able to extract full economic value from their inventions. This can be seen by reflecting on the result of a successful suit for contributory infringement. The prevailing patentee traditionally could secure an injunction against the contributory infringer and thereby drive him from the relevant market. *See, e. g., Thomson-Houston Electric Co.* v. *Kelsey Electric R. Specialty Co.*, 72 F. 1016 (2nd Cir. 1896). The result, especially when the contributory goods sold were not useful for other purposes, was that the patentee effectively gained control over the market for mere *elements* of his patent — elements that might be, but more probably were not, patented in themselves. In effect, therefore, a patentee could force anyone who wished to practice his patented process or use his patented machine to purchase the necessary unpatented components from him.

This state of affairs did not bother many courts in the early days of contributory infringement. Against objections that these injunctions in essence extended the scope of the patent so as to give the patentee the same advantage as if the element had also been patented, courts answered that

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[5] Further discussion of the early cases can be found in C. Miller, *Some Views on the Law of Patent Infringement by Inducement*, 53 J.Pat.Off.Soc'y 86 (1971); Note, *Regulation of Business — Patents — Effect of Section 271 on the Doctrine of Contributory Infringement*, 55 Mich.L.Rev. 909 (1953).

a patentee had not been given an additional patent *in terms* and that they would not prohibit the use of the unpatented element in some other combination if another ingenious use for it could be discovered. *See opinion* of Judge Putnam in *Davis Electrical Works* v. *Edison Electric Light Co.* 60 F. 276, 280 (1st Cir. 1894). And focusing on the analytically similar problem of a patentee's right explicitly to condition use of his patented product or process upon an agreement to buy from him its unpatented elements or unpatented items used with it, courts observed that any monopolistic tendencies would be the legitimate consequence of the meritorious character of the patentee's invention. A patentee would be able to impose restrictive conditions for use of concomitant elements only to the extent of the buyer's valuation of the patented invention itself. *Heaton-Peninsular Button-Fastener Co.* v. *Eureka Speciality Co.* 77 F. 288 (6th Cir. 1896), exhibits the classic analysis. Observing that patentees had always been accorded the right to retain exclusive use of their inventions, even to the point of suppressing them entirely for the statutory period of monopoly, Judge Lurton hypothesized the case of an invention that so reduced the cost of making shoes, an unpatentable end product, that by underselling his competitor manufacturers the patentee was able to drive them from the shoe market. He then reasoned:

> [I]f the patentees, by retaining to themselves the exclusive use of their invention, are able, legitimately and lawfully, to acquire a monopoly of the manufacturer of shoes and destroy the shoe market for those who before had shared it, why may they not, by a system of restricted licenses, permit others to use their devices on condition that only some minor part of the shoe, — the pegs, the tips, the thread, or the buttons, or the button fasteners, — shall be bought from them? If these concessions were such as to enable others to compete though their use of the mechanism was re-

> stricted by the terms of the license, who could justly complain if the inventors, content with a monopoly of the market for the article named in their license, surrendered the opportunity for a monopoly of the manufacture of the complete shoe?

Id. at 295.

Initially the Supreme Court showed hesitation when asked to recognize a patentee's derivative power regarding unpatented elements. In *Morgan Envelope Co.* v. *Albany Perforated Wrapping Co.*, 152 U.S. 425, 14 S.Ct. 627, 38 L.Ed. 500 (1894), the patentee-plaintiff held two patents. One, found invalid by the Court, covered toilet paper rolled into an oval configuration; the other was a combination patent covering the oval roll of paper and a dispenser that together delivered the paper in premeasured lengths. In ruling that the defendant's sale of oval paper rolls for use with the plaintiff's dispenser was not an infringement, the Court employed two entwined but distinguishable strands of analysis. It first determined that the principle of contributory infringement should not apply when the item sold was "an article of manufacture, perishable in its nature, which it is the object of the mechanism to deliver, and which must be renewed periodically, whenever the device is put to use." 152 U.S. at 433, 14 S.Ct. at 630-631.

Of seemingly equal importance, however, was its second observation that, when the item sold was not itself patentable, the contrary outcome would be "giving to the patentee of the machine the benefit of a patent upon the product, by requiring such product to be bought of him." *Id.* The brief opinion shifts back and forth between these two thoughts, and it is difficult to determine whether the Court's concerns about extending the patent were aroused only when the item dealt in was a perishable staple requiring replacement or might also extend to nonstaple or

uniquely active elements of a patent. Aspects of what came to be known as "patent misuse" were involved in *Morgan Envelope,*[6] but the Court, though it refused to ratify the plaintiff's right to these tactics as regards the rolls of paper, did not seem to consider the conduct as independently wrongful. Rather, certain language suggests that such conduct would be an appropriate concomitant of holding a patent whose elements were not mere staples.[7]

In the leading case of *Leeds & Catlin Co.* v. *Victor Talking Machine Co.*, 213 U.S. 325, 29 S.Ct. 503, 53 L.Ed. 816 (1909), the Court retreated from its ambiguous reluctance to give protection to unpatented elements of a combination patent. Plaintiff Victor, whose patent covered disc records and a stylus that combined to reproduce the sound recorded on the discs, had sued Leeds & Catlin to prevent its sale of other recorded discs that were to be used by owners of Victor machines in an alleged infringement. Leeds' primary defense was that use of its records with the Victor stylus accomplished a permissible "repair" of the patented device

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[6] The plaintiff's practice had been to sell its dispensers only in connection with its oval rolls. Purchasers were required to buy a given quantity of paper for a given number of fixtures, and certain institutional buyers were required to buy subsequent roll supplies from the patentee. 152 U.S. at 431-32, 14 S.Ct. 627.

[7] For instance, immediately after noting that holding for plaintiff would be giving the patentee of "the machine" the benefit of a patent on the product as well, the Court added:

> To repeat an illustration already put: If a log were an element of a patentable mechanism for sawing such log, it would, upon the construction claimed by the plaintiff, require the purchaser of the sawing device to buy his logs of the patentee of the mechanism, or subject himself to a charge of infringement. This exhibits not only the impossibility of this construction of the patent, but the difficulty of treating the paper as an element of the combination at all.

152 U.S. at 433, 14 S.Ct. at 631. Moreover, it is interesting to note that the plaintiff did not hold a patent on the dispenser, "the machine," in itself — but only on the combined dispenser with paper — yet the Court seems to speak as if he did.

rather than a prohibited "reconstruction." Reviewing "some rudimentary principles" regarding combination patents before assessing this contention, the Court observed that, whether constituted of new or old elements, it is the combination that is the relevant and is protected by law as a unit. The Court reiterated, however, that whoever contributes to the use of the combination absent permission also infringes the patent and, in words striking close to the position enunciated in *Morgan Envelope,* continued:

> It may be well here to get rid of a misleading consideration. *It can make no difference as to the infringement or noninfringement of a combination that one of its elements or all of its elements are unpatented.* For instance, in the case at bar the issue between the parties would be exactly the same, even if the record disc were a patented article which petitioner had a license to use or to which respondent had no rights independent of his right to its use in the combination. In other words, the fact that the disc sold by petitioner is unpatented does not affect the question involved except to give an appearance of a limitation of the rights of an owner of a Victor machine other than those which attach to him as a purchaser. The question is, What is the relation of the purchaser to the Victor Company? What rights does he derive from it? To use the machine, of course, but it is the concession of the argument of petitioner that he may not reconstruct it. Has he a license to repair deterioration and when does repair become reconstruction?

213 U.S. at 333, 29 S.Ct. at 505 (emphasis added). With this language, the Court seemed to reject the notion that the patent status of mere elements is a source of limits on the rights of patentees against their licensees, customers or alleged infringers. The inquiry is shifted instead to an examination of the contractual relationship between the purchaser and the patentee. *Morgan Envelope,* on which the defendants had relied heavily, was distinguished. As

contrasted with the paper rolls that stood in relation to the dispenser as "a machine and its product" and that perish in use, requiring periodic renewal, the disc and stylus were each active elements in producing the result, distinguishing the invention and advancing upon the prior art. *Id.* 213 U.S. at 333-36, 29 S.Ct. 503.

The Court also rejected the defendant's attempt to characterize its discs as a staple item of manufacture, noting that the trial court had found that the allegedly noninfringing device in which the defendant's records could be used was not commercially viable. Defendants therefore knew that the only use their records would receive would be in connection with the patented machine. The Court also noted, however, that the injunction forbade only the use of the records in connection with the patent. *Id.* at 337, 29 S.Ct. 503.

Following *Leeds & Catlin,* the Court allowed patentees even greater latitude in reaping economic benefits from their inventions through license restrictions or notice. *Henry* v. *A. B. Dick Co.,* 224 U.S. 1, 32 S.Ct. 364, 56 L.Ed. 645 (1912), written by Justice Lurton, who had earlier penned the *Button-Fastener* opinion for the Sixth Circuit, marks the high water in this area The principles enunciated in *Dick* effectively enabled a patentee to "tie" ordinary staples of commerce, none of which was even an element of the patented device, to a purchaser's right to use the device. This result was achieved by enforcing through the patent law instead of general contract law a notice attached to each patented machine at sale that required the purchaser to use the machine only with stencil paper, ink, or other supplies made by the patent holder, A. B. Dick. The majority ruled that any breach of these conditions by the buyer constituted infringement of the underlying patent and that any conduct aiding the breach was contributory infringement.

On the question whether, thus applied, the doctrine of contributory infringement operates to extend the monopoly of the patent to subjects not within it, Justice Lurton stated:

> If a patentee says, "I may suppress my patent if I will. I may make and have made devices under my patent, but I will neither sell nor permit anyone to use the patented things," he is within his right, and none can complain. But if he says, "I will sell with the right to use only with other things proper for using with the machines, and I will sell at the actual cost of the machines to me, provided you will agree to use only such articles as are made by me in connection therewith," — if he chooses to take his profit in this way, instead of taking it by a higher price for the machines, has he exceeded his exclusive right to make, sell, and use his patented machines? *The market for the sale of such articles to the users of his machine, which, by such a condition, he takes to himself, was a market which he alone created by the making and selling of a new invention. Had he kept his invention to himself, no ink could have been sold by others for use upon machines embodying that invention. By selling it subject to the restriction, he took nothing from others and in no wise restricted their legitimate market.*

224 U.S. at 32, 32 S.Ct. at 373 (emphasis added). Observing that a like objection had been made against injunctions restraining the sale for infringing purposes of a single element in a patented combination, the majority then answered the contention in the language of Judge Putnam in *Davis Electric,* discussed above.

Justice White, for the minority, voiced conflicting reasoning that later became prevalent in patent misuse cases:

> [T]he ruling now made in effect is that the patentee has the power, by contract, to extend his patent rights so as to bring within the claims of his patent things which are not embraced therein, thus virtually legislating by causing the patent laws to cover subjects to which, without the exercise of the right of contract, they could not reach, the result not only to multiply monopolies at the will of an interested party, but also to destroy the jurisdiction of the state courts over subjects which, from the beginning, have been within their authority.

Id at 53, 32 S.Ct. at 381.

Two years later in partial response to *Dick,* Congress passed section 3 of the Clayton Act and the Federal Trade Commission Act. New members of the Court joined with the *Dick* minority to form a new majority, and thereafter the Court began a retreat from the principles just reviewed. Their vehicle was the new doctrine of patent misuse.

In *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.,* 243 U.S. 502, 37 S.Ct. 416, 61 L.Ed. 871 (1917), Mr. Justice Clarke, for the new majority, held that a patentee may not, as a function of general *patent* law,[8] require by notice a purchaser to limit use of a patented movie machine to unpatented films that do not form part of the patented machine. With the attempted restriction ruled invalid, there was no further basis for a charge of direct or contributory infringement, and the plaintiff was denied relief.

The Court rested its decision, which of course required reversing *Dick,* on an analysis of "fundamental" principles embodied in the patent statute. From the basic proposition that the scope of a patent is limited to the invention described in its claims, coupled with the rule that the sta-

[8] The Court left open the question whether the patentee and purchaser could agree to a similar restriction by "special contract," but its language about the public policies implicated by such arrangements cast some doubt on the validity of such tactics as well. 243 U.S. at 509, 513, 37 S.Ct. at 419.

tutory policy of benefitting the public outweighs the policy of benefitting inventors, the Court concluded that the monopoly granted by law should not extend to, and thus cannot sanction a patentee's control of, mere materials "with which or on which the machine operates." 243 U.S. at 509-13, 37 S.Ct. at 419. The majority further reasoned that a reward based on the entire invention was a fair measure of an inventor's creativity and that "he should not be permitted by legal devices to impose an unjust charge upon the public in return for the use of it." *Id.* at 513, 37 S.Ct. at 419. The *Dick* majority had thought well of the patentee's system of selling a machine at practically cost and making its entire profit from the sale of supplies because the intention was thereby made widely available to the public. The new majority thought such facts "the clearest possible condemnation of [the patentee's system]." Echoing the *Dick* dissent, Justice Clarke explained:

> [I]t proves that, under color of its patent, the owner intends to and does derive its profit, not from the invention on which the law gives it a monopoly, but from the unpatented supplies with which it is used, and which are wholly without the scope of the patent monopoly, thus in effect extending the power to the owner of the patent to fix the price to the public of the unpatented supplies as effectively as he may fix the price on the patented machine.

243 U.S. at 517, 37 S.Ct. at 421.

In *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27, 51 S.Ct. 334, 75 L.Ed. 819 (1931), the Court reviewed a merchandising system in which the patentee and its licensee sold solid carbon dioxide and by notice, without extra charge, extended to each customer an implied license to use the dry ice in patented cardboard transportation packages. Neither the plaintiff nor other licensees actually

sold these cardboard packages. The Court relied on *Motion Picture's* reasoning to categorize this conduct as "abuse of the patent monopoly" and a bar to relief against a contributory infringer. The system was considered the equivalent of conditioning grant of a patent license on the purchase of unpatented materials used in connection with the invention.

The plaintiffs tried to distinguish *Motion Picture* by arguing that the unpatented item sold here was a necessary element of the patented combination, as opposed to a mere supply used with the invention. They also sought to distinguish themselves from *Morgan Envelope* by arguing that, unlike the passive toilet paper there involved, the carbon dioxide was the dynamic element that produced refrigeration. Justice Brandeis, for the majority, rejected these distinctions as lacking legal significance.

> Infringement, whether direct or contributory, is essentially a tort, and implies invasion of some right of the patentee. . . . The Dry Ice Corporation has no right to be free from competition in the sale of solid carbon dioxide. Control over the supply of such unpatented material is beyond the scope of the patentee's monopoly; and this limitation, inherent in the patent grant, is not dependent upon the peculiar function or character of the unpatented material or on the way in which it is used. Relief is denied because the Dry Ice Corporation is attempting, without sanction of law, to employ the patent to secure a limited monopoly of unpatented material used in applying the invention.

283 U.S. at 33, 34, 51 S.Ct. at 336. He next analogized the patentee's conduct to antitrust violations in which patents had been used as instruments for restraining commerce.[9]

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[9] Building on the previous construction of Clayton Act, Section 3, in *United Shoe Machinery Corp.* v. *United States*, 258 U.S.

Finally, the principle of *Leeds & Catlin* was distinguished since "[t]here was no suggestion that the Victor Company, which itself manufactured and sold the patented product," sought to derive its profits from the unpatented element, as opposed to the invention as a whole.

In *Leitch Manufacturing Co.* v. *Barber Co.*, 302 U.S. 458, 58 S.Ct. 288, 82 L.Ed. 371 (1938), the Court assessed the mode of business used now by Rohm & Haas. The patentee thought it might foreclose a misuse defense by carefully avoiding use of notices or explicit contract restrictions. It merely sold materials used in carrying out the patented process, thereby granting an implied license to use the patented invention. The Court, however, had no trouble identifying its conduct as prohibited tying, despite the lack of an explicit condition that the license was granted only upon purchase of the materials used in the process.

In *Leitch,* as in all the earlier misuse cases to reach the Court, the patentee had been profiting by sale of *staple* elements or concomitants of the patent. It was still possible for the bar to think that a patentee might not be deemed guilty of misuse for attempting to control the market in

451, 42 S.Ct. 363, 66 L.Ed. 708 (1922), and on this reference in *Carbice,* analysis of conduct constituting patent misuse as an independent violation of antitrust laws proceeded apace in later years. In *IBM* v. *United States,* 298 U.S. 131, 56 S.Ct. 701, 80 L.Ed. 1085 (1936), the Justice Department won a section 3 suit against IBM for leasing its patented tabulating machines upon condition that lessees use with the machines only tabulating cards sold by IBM. Though both the machines and the cards, at least once they had been punched to encode information, were separately patented, the Court ruled that the tying clause was prohibited by section 3. The effect of the condition, the Court stated, "may be to substantially lessen competition." The Court thought such a clause necessarily tended to create a monopoly and had in fact been an important and effective step in creating an IBM monopoly.

unpatented elements that had no use at all outside his patented invention.[10]

Though such a distinction between staples and nonstaples was rejected at the appellate level in one of the next pair of cases to reach the Court, *Morton Salt Co.* v. *G. S. Suppiger Co.,* 314 U.S. 488, 62 S.Ct. 402, 86 L.Ed. 363 (1942), and *B. B. Chemical Co.* v. *Ellis,* 314 U.S. 495, 62 S.Ct. 406, 86 L.Ed. 367 (1942), the various Supreme Court opinions do not address the question. In *Morton Salt,* the Court for the first time upheld a summary judgment dismissing a patentee's suit against a *direct* infringer on misuse grounds. In addition to the customary language about the anticompetitive effects of misuse, the Court's opinion included a new attention to the effect on competition of a successful infringement suit itself:

> Where the patent is used as a means of restraining competition with the patentee's sale of an unpatented product, the successful prosecution of an infringement suit even against one who is not a competitor in such sale is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent. Maintenance and enlargement of the attempted monopoly of the unpatented article are dependent to some extent upon persuading the public of the validity of the patent, which the infringement suit is intended to establish.

314 U.S. at 493, 62 S.Ct. at 405.

B. B. Chemical, the case involving the possible staple/nonstaple distinction, is noteworthy here primarily because in it the Court rejected the potential defense of commercial

[10] Broad statements of the *Carbice* rule, however, like that in *Leitch,* "every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited," 302 U.S. at 463, 58 S.Ct. at 290, should have counseled caution.

practicability. The patentee had argued that he should be allowed to sell the unpatented materials with an implied license to practice the patented method because he could not practicably exploit the particular patent rights by granting licenses. The Court replied that the patent monopoly is not to be enlarged simply because it would be more convenient for the patentee to have it so or because he "cannot avail himself of its benefits within the limits of the grant." 314 U.S. at 498, 62 S.Ct. at 408.

The culmination of the developing misuse theory occurred in companion decisions in 1944, *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661, 64 S.Ct. 268, 88 L.Ed. 376 (1944) (*Mercoid I*), and *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 64 S.Ct. 278, 88 L.Ed. 396 (1944) (*Mercoid II*). In these cases the Court definitively entered *Leeds & Catlin* turf and held it misuse for a patentee to attempt to control the market for unpatented elements that had no use at all outside the patented invention. The combination patent at issue in *Mercoid* covered a furnace stoker system. Mid-Continent held the patent and had granted an exclusive license to Minneapolis-Honeywell to make, use, or sell the patent and/or to sublicense others. Neither company made or installed the entire patented system; Minneapolis-Honeywell merely sold the stoker switches which, when installed with a thermostat and a motor-driven stoker, formed the patented combination. The right to construct the combination was granted only to those who bought Minneapolis-Honeywell switches; royalties from Minneapolis-Honeywell to Mid-Continent were based on the sales of the unpatented stoker switches. The defendant Mercoid Corporation was an unlicensed competitor in the business of selling the switches, and a lower court opinion reveals that Mercoid had earlier refused an offer of a license.

In *Mercoid I,* though the Court assumed that Mercoid was a contributory infringer and could have been enjoined by an innocent patentee, it barred Mid-Continent from enforcing the patent because its licensing system constituted an attempt to extend the grant of the patent to unpatented devices. Admitting that the earlier cases had involved the use of a patent to secure partial monopoly "in supplies consumed in its operation or unpatented materials employed in it," the Court, through Justice Douglas, could see no difference in principle where the unpatented material or device "is itself an integral part of the structure embodying the patent" and was not useful in any other manner. 320 U.S. at 665, 64 S.Ct. at 271. The Court saw in the patentee's conduct not a struggle to protect its rights regarding the combination patent, but rather a contest "solely over unpatented wares which go into the patented product." *Id.* at 666, 64 S.Ct. at 271-272. Thus, the patent was being impermissably employed to protect the market for a device on which no patent had been granted. Irrespective of whether the stoker switch was "the heart of the invention" or the "advance in the art," since the separate element had not been claimed as the invention, it is not protected by the patent monopoly "when dealt with separately." *Id.* at 667, 64 S.Ct. 268.

In language thought by many to have abolished the doctrine of contributory infringement, Justice Douglas proceeded:

> The protection which the Court in [*Leeds & Catlin*] extended to the phonograph record, which was an unpatented part of the patented phonograph, is in substance inconsistent with the view which we have expressed in this case. The rule of the *Leeds & Catlin Co.* case (No. 2) accordingly must no longer prevail against the defense that a combination patent is being used to protect an unpatented part from competition.

> . . . Where there is a collision between the principle of the *Carbice Case* and the conventional rules governing either direct or contributory infringement, the former prevails.
>
> The result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider.

320 U.S. at 668-69, 64 S.Ct. at 272-273.

In *Mercoid II,* Mr. Justice Douglas went even further and ruled that the legality of any attempt to bring unpatented goods within the protection of the patent is measured by the antitrust laws, not by the patent law. Further, he ruled, the effort there made to control competition in the unpatented switch plainly violated the antitrust laws, and he remanded the case for further proceedings on the alleged infringer's antitrust counterclaim.[11]

In the aftermath of *Mercoid,* strange to say, there was great confusion in the courts and among the patent bar regarding the proper scope of contributory infringement. Some courts, carrying the Court's reasoning and dictum to the extreme, held that merely filing a suit for contributory infringement constituted an attempt to control the market in unpatented goods and dismissed the suit for misuse. *See, e. g., Stroco Products* v. *Mullenbach,* 67 U.S.P.Q. 168 (S.D.Cal. 1944). A movement arose among the bar to put some effective measure of contributory infringement back into the law, and various committees came forward to draft proposed legislation for consideration by the congressional committee then codifying the general patent law. The ultimate result was section 271.

[11] Despite the broad language in *Mercoid II,* there has continued to be a distinction drawn between acts that will cause an equity court to withhold its aid — the defense of patent misuse —

Before turning to the legislative history of that provision, we offer a few reflections on the two doctrines it touches. In addition to briefly recounting the development of contributory infringement and misuse, it has been a purpose of the above review to demonstrate that, though the doctrines are technically distinct — one focusing solely on the patentee's conduct and the other focusing solely on that of the alleged infringer — they rest on antithetical underpinnings. The doctrines clearly conflict concerning the permissible means by which a patentee may extract from the buying public the full monetary measure of his invention's competitive superiority. The doctrine of contributory infringement in its classical exposition admits that a patentee may temporarily extend his monopolistic market power to unpatented items used in or with his invention since he is able to do this only to the extent the public values his invention and since he is not given a patent *in terms* over the unpatented items. In other words, the public will never pay more for use of the invention and its necessary concomitants than it thinks the full invention is worth. And since the patentee is not given a formal patent right regarding unpatented elements, competitors may freely sell them for any uses except in connection with the patented device, they are foreclosed only from the markets for their goods that exist *because of* the patented invention. The doctrine of patent misuse, on

and the often overlapping range of conduct prohibited by the antitrust laws and thus the potential basis for a treble damage cause of action. *See, e.g.,* T. Maffei, *The Patent Misuse Doctrine: A Balance of Patent Rights and the Public Interest,* 52 J.Pat. Off.Soc'y 178 (1970).

The developing antitrust assessment of tying conduct came to fruition in *International Salt Co.* v. *United States,* 332 U.S. 392, 68 S.Ct. 12, 92 L.Ed. 20 (1947), and *Northern Pacific Railway Co.* v. *United States,* 356 U.S. 1, 78 S.Ct. 514, 2 L.Ed.2d 545 (1958), patent and non-patent cases respectively. Such business schemes were held to be per se violations of section 1 of the Sherman Act and section 3 of the Clayton Act.

the other hand, categorically denies that the value of the patented good can properly be sounded by sales of unpatented goods used in or with it, however unique or important to the invention they may be. Any attempt, for the sake of convenience or otherwise, to capitalize on the invention except by dealing in the invention *as a whole* is beyond the scope of the patent and against public policy.

Seen in this light, there was more than a grain of truth in Justice Douglas' much maligned "dictum" in *Mercoid* that the result in that case, together with the other patent misuse cases, "limits substantially the contributory infringement doctrine" — to the extent that only some unexplored "residuum" might be left. Theoretically, the two doctrines can hardly coexist. The protection of unpatented elements granted in *Leeds & Catlin* is inconsistent with pro-consumer and pro-competitor values protected by thoroughgoing misuse principles. This can be demonstrated by considering the hypothetical case of the "good patentee." Posit a patentee who is exploiting his invention totally within the bounds of its claimed scope. He has the capability to produce and market a sufficient supply of the patented combination to reap his legitimate monopoly profits. Thus, he declines, as is his right, to license others to manufacture and sell the invention. He learns that his patent is being infringed by consumers with the aid of Mr. D, who has been making and selling, with instructions for completing the invention, the unique elements of his patent, elements that have no use outside the invention. Since the patentee is marketing the whole of his invention, he cannot be charged with wrongfully extending his patent.[12]

[12] Of course, if, as the *Stroco* court thought, the mere bringing of a contributory infringement suit is misuse, the patentee is barred. But this extreme definition of misuse would succeed in *totally* destroying contributory infringement principles, a result that, though logically consistent, apparenly was not contemplated by Justice Douglas. He explicitly assumed that *Mercoid* was susceptible to an injunction at the hands of the proper plaintiff. 320 U.S. at 668-69, 64 S.Ct. 268.

His suit against Mr. D for contributory infringement is therefore successful, and he is granted the traditional injunction that forces Mr. D to cease the challenged conduct. It seems evident from this scenario that, by use of the contributory infringement doctrine, the patentee has foreclosed competitors in the unpatented item, "leveraging" his one lawful monopoly into the market for an unpatented item where he now has no competition. What difference can it possibly make either to consumers or to competitors in the market for the unpatented item that the patentee has made his profits by selling the entire combination instead of the unique element? Competition in the submarket has been destroyed.

Despite this anomaly, caused, we think, by the conflicting bases of the doctrines, all sorts of prudential lines might be drawn to demarcate the doctrines and save for each some "appropriate" scope. Indeed, this was done in each successive patent misuse case before *Mercoid*. For instance, when the Court in *Motion Picture* disapproved a patentee's right to tie unpatented staple supplies used with the invention, it seemed carefully to imply that a different rule might apply when the unpatented item was used in, as part of, the invention. When it took the next step down the road in *Carbice,* disapproving a tie of the unpatented staple *element* to use of the patented invention, it was possible to think that an element with no noninfringing use might be treated differently, especially since the Court went out of its way to approve the *Leeds & Catlin* holding. *Mercoid* only carried the misuse doctrine a logical step further in wiping out a patentee's right to profit from an unpatented element with no use at all outside the patented item. That the misuse doctrine had really triumphed over the contributory in-

fringement doctrine seems evident in Justice Douglas' disapproval of *Leeds & Catlin,* a move unnecessary to the narrow *Mercoid* holding since the Court had previously described the *Leeds* patentee as a patentee profiting only by sale of the entire combination.[13]

It is possible that this *Mercoid* "dictum" casting doubt on the entire contributory infringement doctrine is all that was overruled by the enactment of section 271. It is possible that section 271, as defendants and several commentators urge, merely codifies the *Mercoid* result along with other patent misuse law. If so, then plaintiff Rohm & Haas cannot be allowed to foreclose the defendants from the propanil market, though, were Rohm & Haas merely practicing its exclusive right to spray farmers' fields with propanil, it could successfully sue to prevent the defendants from continuing their present practices. It is therefore with special care that we turn to the statute's legislative history so that we may interpret its words in light of the purposes Congress sought to serve by its enactment.

There was apparently no debate on the House floor regarding the 1952 codification and scant public debate in the Senate. An interchange in the Senate shortly before the bill was passed has often been cited as evidence that section 271 did not overturn the result in *Mercoid.*[14] In response

[13] The *Carbice* Court had so described the *Leeds* patentee. 283 U.S. at 34, 51 S.Ct. 334. Query, though, whether the description was accurate. Would the Victor Company have had much incentive to sue Leeds unless Victor itself desired to capture the market for both replacing broken records and supplementing the buyer's collection with new tunes? Surely the suit would have been unnecessary if Victor merely intended to sell only a single record for use with the more durable stylus.

[14] *See, e.g., Aro Manufacturing Co.* v. *Convertible Top Replacement Co.,* 365 U.S. 336, 347 n. 2, 81 S.Ct. 599, 5 L.Ed.2d 592 (1961) (Black, J., concurring). See, however, the discussion of this passage in the court below, *Rohm & Haas Co.* v. *Dawson Chem Co.,* 191 U.S.P.Q. 691, 701 n. 9 (S.D.Tex. 1976)

to a question by Senator Saltonstall about the purpose of the bill, whether it changed the law in any way or merely codified it, Senator McCarran, Chairman of the Judiciary Committee that had been in charge of the bill in the Senate, stated: "It codifies the present patent laws." 98 Cong. Rec. 9323 (July 4, 1952). The force of this exchange is mitigated, however, by Senate McCarran's introduction a few moments later of a short prepared statement that in part states:

> In view of the decisions of the Supreme Court and others as well as trial by practice and error there have been some changes in the law of patents as it now exists and some new terminology used.

Id. To one familiar with the rest of the legislative history, that sentence seems almost certainly a reference to section 271 and the *Mercoid* case, among others.

The reports on the bill issued by the House and Senate Committees on the Judiciary each contain language similar to McCarran's in discussing section 271. The reports and, indeed, the title of the bill indicate its general purpose to be the revision, as well as the codification of the patent law, which had largely developed in the courts to supplement earlier and more sparse patent statutes. The reports explain that section 271 was designed to remove the "considerable doubt and confusion" engendered by "a number of decisions of the courts in recent years" and that paragraphs (b), (c), and (d) were to provide "clarification and stabilization.[15] Though other portions of the reports state

[15] As general description of the bill, each report states:

> Although the principal purpose of the bill is the codification of title 35, United States Code, and involves simplification and clarification of language and arrangement, and elimination of obsolete and redundant provisions there are a number of changes in substantive statutory law. These will be explained in some detail in the revision notes keyed to each section which appear in the appendix of this report.

The major changes or innovations in the title consist of incorporating a requirement for invention in § 103 and the judicial doctrine of contributory infringement in § 271.

H.R.Rep.No.1023, 82d Cong., 2d Sess. 5 (1952); S.Rep.No.1979, 82d Cong., 2d Sess. 4 (1952).

The summary of section 271 more specifically states:

Section 271, paragraph (a), is a declaration of what constitutes infringement. There is no declaration of what constitutes infringement in the present statute. It is not actually necessary because the granting clause creates certain exclusive rights and infringement would be any violation of those rights.

Paragraphs (b), (c), and (d) relate to the subject referred to as contributory infringement. The doctrine of contributory infringement has been part of our law for about 80 years. It has been applied to enjoin those who sought to cause infringement by supplying someone else with the means and directions for infringing a patent. One who makes a special device constituting the heart of a patented machine and supplies it to others with directions (specific or implied) to complete the machine is obviously appropriating the benefit of the patented invention. It is for this reason that the doctrine of contributory infringement, which prevents appropriating another man's patented invention, has been characterized as "an expression both of law and morals." Considerable doubt and confusion as to the scope of contributory infringement has resulted from a number of decisions of the courts in recent years. The purpose of this section is to codify in statutory form principles of contributory infringement and at the same time eliminate this doubt and confusion. Paragraph (b) recites in broad terms that one who aids and abets an infringement is likewise an infringer. The principle of contributory infringement is set forth in the provisions of the next paragraph which is concerned with the usual situation in which contributory infringement arises. This latter paragraph is much more restricted than many proponents of contributory infringement believe should be the case. The sale of a component of a patented machine, etc., must constitute a material part of the invention and must be known to be especially made or especially adapted for use in the infringement before there can be contributory infringement, and likewise the sale of staple articles of commerce suitable for non-infringement use does not constitute contributory infringement. The last paragraph of this section provides that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent. These paragraphs have as their main purpose clarification and stabilization.

H.R.Rep.No.1923, 82d Cong., 2d Sess. 9 (1952); S.Rep.No.1979, 82d Cong., 2d Sess. 8 (1952).

that only changes "deemed substantially noncontroversial and desirable" were made in the then current patent law principles,[16] the transcript of hearings held by the House Judiciary Committee indicates that the decision to consider section 271 "noncontroversial" was in itself a controversial issue.[17]

The most important portions of those hearings, for our purposes, involve the various appearances of Mr. Giles S. Rich, the chief draftsman of the contributory infringement provisions. The tenor of his explanations indicates that section 271 was designed to immunize behavior like that in issue here.

Evidence of this can be found, for instance, in his discussion of an unreported case, *Amalgamated Dental Co.* v. *William Getz Corp.*, in the Eastern District of Illinois. 1951 Hearings at 154-56. The plaintiff-inventor had secured a patent on a method for making dental impressions by mixing four chemicals in an aqueous solution that dried into a stiff elastic gel. The patentee was retailing his

[16] *See, e. g.*, H.R.Rep.No. 1923, 82d Cong., 2d Sess. 3 (1952).

[17] Hearings were held by successive Congresses to consider the complex question of revising and codifying the patent law and particularly the contributory infringement problem. Patent Law Codification and Revision: Hearings on H.R.3760 Before Subcomm. No. 3 of the House Comm. on the Judiciary, 82d Cong., 1st Sess. (1951) [hereinafter 1951 Hearings]; Contributory infringement: Hearing on H.R. 3866 Before Subcomm. No. 4 of the House Comm. on the Judiciary, 81st Cong., 1st Sess. (1949) [hereinafter 1949 Hearings]; Contributory Infringement in Patents — Definition of Invention: Hearings on H.R. 5988, H.R.4061 and H.R.5248, Before Subcomm. on Patents, Trademarks and Copyrights of the House Comm. on the Judiciary, 80th Cong., 2d Sess. (1948) [herinafter 1948 Hearings].

invention by selling the four chemicals as a unit, with directions for completing the mixture by adding water before the material was to be applied. The alleged infringers were marketing the invention in identical fashion. The district court, which had originally decided the *Mercoid* case and had easily perceived misuse there and in other cases, balked at deeming the patentee guilty of misuse simply because, along with his four chemicals, he had not included a little water.

After quoting the court's gyrations in allowing the suit over the asserted defense ("the water just constitutes the environment in which these chemicals perform"), Rich remarked that "[l]ogically, he cannot get around the *Mercoid case.*" Rich noted that courts faced the same problem regularly in fact situations of this kind and that they were deciding inconsistently. He then went on to explain that the statutory solution was designed to avoid restricting competition in items that were staples, while at the same time allowing patentees to deal in certain materially important unpatented elements and to sue competitors therein without being thrown out of court on grounds of misuse. *Id.* at 157-59. He was especially concerned with a situation

> where the economics of the industry is such, perhaps, that the invention is not sold in the form in which it is claimed in the patent; it is sold in a slightly incomplete form like the lamp without the chimney, so that there is a technical defense based on the omission of something mentioned in the claim.

Id. at 158.[18]

Another telling feature of Mr. Rich's remarks is his observation that the new statutory rule cannot be compared

[18] Such a concern for economical distribution of inventions is of course at odds with the Supreme Court's earlier views in *B. B. Chemical, supra.*

to any definite era in the history of the contributory infringement and patent misuse doctrines.[19] *Id.* at 161. Rather, the line drawn by paragraphs (c) and (d) respresents a careful compromise between the public policy of encouraging competition, vindicated by exempting sales of staples from the definition of contributory infringement, and a patentee's desire to market his device in the most practical manner possible and to protect it against piracy. Under paragraphs (c) and (d), the patentee has no right to sue anyone who is merely marketing a staple, or even a non-staple that does not amount to a *material* part of his invention. Such conduct by unlicensed competitors is not defined as contributory infringement. Thus, as long as a competitor is not actively inducing infringement (as by advertising or giving detailed instructions for practicing the invention with his products — conduct prohibited by paragraph (b)), a seller may even *know* or *intend* that his products will be used in an infringement, and a patentee will not be able to foreclose him from the market. *See generally id.* at 159-62.[20]

[19] This view was also presented by Mr. P. J. Federico of the U.S. Patent Office, who, in giving a quasi-official overview of the bill except for section 271, remarked that

> paragraph (c) which is the key section, was devised by the groups working on it as an attempt to state in statutory form the theory of what has been called contributory infringement of patents in a manner which, looked at from certain points of view, might be considered restrictive of what has been held in the past and looked at from some other points of view might be considered broader.

[20] Mr. Rich emphasized this narrow but important shift in doctrine by noting the result in the *Carbice* decision would not be changed:

> There would be no possibility under this section of utilizing the patent to monopolize the sale of dry ice which was a staple article of commerce, or a commodity of commerce which had been known 80 years. It would still be

This understanding of the joint effect of paragraphs (c) and (d) is reinforced by the arguments of the bill's opponents, most prominently the Justice Department. T. Hayward Brown, Chief of the Patent Litigation Unit, showed especial opposition to paragraph (d), which the Justice Department deemed a major controversial change from then current misuse principles and, as such, inappropriate for inclusion in a codification.[21]

misuse as in the *Carbice* case, even though this section were enacted.

Id. at 161.

In the context, the negative implication of these remarks is clear: patentees who market unpatented nonstaples might possibly monopolize such sales. And in his remarks at earlier hearings, to which he referred the committee at several points, he had made this explicit:

> The exception which we wish to make to the misuse doctrine would reverse the result in the *Mercoid* case; it would not reverse the result in the *Carbice* case.

1949 Hearings at 67, 68-69.

[21] Part of Mr. Brown's assessment is as follows:

> These provisions would result in writing into the patent statutes for the first time the strictly judicial doctrine of contributory infringement, a doctrine which has been the subject of considerable controversy and has been properly limited by the courts in recent years. This Department is opposed to extending the law of contributory infringement. The revision would clearly extend it in several respects. In the first place, paragraph (b) would put the contributory infringer in the same category as a direct infringer, thereby subjecting him to the limitations and liabilities of the latter.
>
> Paragraph (d) would greatly impair the salutary doctrine that a patentee who has misused his patents may not recover in a suit for either direct or contributory infringement. The Supreme Court has held that a requirement by a patentee that users purchase from him or his exclusive licensee unpatented part not within the scope of the patent, was a misuse of the patent and barred recovery even though contributory infringement was assumed to exist. This doctrine is a most important factor in the enforcement of the antitrust laws with respect to tying arrangements and the Department is opposed to any impairment thereof.
>
> It is not clear to what extent paragraph (b) is intended to enlarge the present law on contributory infringement.

One who read section 271 differently from Mr. Rich, and is thus often cited to support a narrow interpretation of it, is Representative Crumpacker, a member of the House subcommittee conducting the hearings on the bill. When Mr. Fugate of the Justice Department railed against the provision because of its ostensible legitimation of certain types of misuse, Crumpacker's response indicates he read the language as applying to innocent conduct not previously deemed misuse or "monopolistic practices" by the courts.[22] 1951 Hearing at 165-64 and following. Mr. Rich was brought back to clarify matters. Mr. Rogers then summarized Rich's position as follows:

> Now, due to what many members of the patent bar believe, that it did away with contributory infringement cases, you feel that we should now state as a positive law a cause of action against contributory in-

> The phrase, "actively induces infringement" might cover many situations which are not now considered to be contributory infringement. Paragraph (c) also appears to enlarge the scope of contributory infringement. While some cases have indicated that one who sells an article not capable of use except in an infringing manner is liable for contributory infringement even in the absence of actual knowledge of the infringement, the sounder approach would seem to be that such facts merely give rise to a rebuttable presumption of intent to infringe.

1951 Hearings at 96-97. *See also* the remarks of Mr. Wilber L. Fugate, an attorney of the Justice Department's Antitrust Division, 1951 Hearings at 162-69.

[22] Mr. Crumpacker seemed incredulous at Mr. Fugate's suggestion that, if applied generally, paragraph (d) would immunize conduct which the courts had found to be misuse. He countered:

> It says that he shall not be deemed guilty of misuse because he has done one of these three things. It doesn't say that he shall be deemed not guility of misuse because he has done this. I think you are reading it backward. That is, he may have done all three of these things and still be guilty of misuse, as I interpret the language.

1951 Hearings at 167.

> fringement as set forth in section (c), and that if he has done one of the three things in section [(d)], that shall not be considered a misuse of his patent, and *thereby reestablish what you thought you had before the Mercoid case.* Isn't that about what the situation is?

Id. at 173 (emphasis added).

Mr. Rich agreed and further explained that to recover a full complement of contributory infringement meant something had to be done about misuse.

> So attached to paragraph (c) we have a paragraph (d) that says that the recovery, the enforcement against contributory infringers, the holding out of the patent against contributory infringers, and granting them licenses, the use of it to protect the business and making money out of it, and getting your reward as a patentee, all of these things shall not be misused, and then contributory infringement, which we have had all the time, would become effective again to the extent that they wish to have it so.

Id.

In a final clarification, Mr. Rogers revived an earlier line of inquiry: whether the enumerated rights were innocent in themselves or whether the courts had previously deemed each one of them patent misuse. As the final comprehensive discussion of section 271(d), and as a treatment that seemed to satisfy Representative Crumpacker sufficiently so that he turned to another matter, this exchange, set out in the margin, is worthy of study.[23]

[23] Mr. Rogers. May I ask this further question? Do you know of any case where the plaintiff was denied relief because he had accepted revenue from acts which, if performed by another without his consent, would constitute contributory infringement of the patent? That is number one.

Mr. Rich. The *Barber Asphalt* case, I think is typical of that, and to some extent the *Carbice* case. In the *Carbice* case there was a form of license on the invoice. In the *Barber Asphalt*

case they tried to distinguish on the ground that they had no agreements with anybody, so that what they were doing was deriving revenue in the form of profits from the sale of the unpatented staple commodity for use in the invention.

Mr. Rogers. So the court then said that that act constituted something leading toward monopoly or contrary to public policy, and for that reason denied relief to the plaintiff?

Mr. Rich. That is correct.

Mr. Rogers. Now, as to No. 2, are there any cases where licensed authorized persons performed acts which, if performed without their consent, would constitute contributory infringement of the patents?

Mr. Rich. Well, that is the *Mercoid* type of situation.

Mr. Rogers. Yes.

Mr. Rich. It must, of course, be realized that if we had had a statute like this, the *Mercoid* case might have been tried differently, on a different theory. But it deals with granting licenses to people who would otherwise be contributory infringers, not direct infringers, because they are only making part or less than the whole of the invention.

Mr. Rogers. Well now, do you know of any case where they have denied relief to the plaintiff where he had sought to enforce his patent rights against infringement or contributory infringement on this section 3?

Mr. Rich. Do you mean section 2, licensing?

Mr. Rogers. No, section 3 of (d).

Mr. Rich. That is sought to enforce?

Mr. Rogers. Yes.

Mr. Rich. That is the *Stroco Products* v. *Mullenbach* case.

Mr. Rogers. Then the effect of (d) with the (3) in there would be to say to the Supreme Court that it is the sense of this Congress that where you have heretofore denied relief to the plaintiff, you shall henceforth grant him relief if he has only performed one, two, or three of these acts in (d), and that is why the Department of Justice is objecting to it?

Mr. Fugate. Yes, sir.

Mr. Rogers. And it would therefore necessarily follow that by taking (c) and (d) together we are asking the Supreme Court to not follow the line of reasoning of declaring that a man shall be denied his day or damages if he has done any one of these three acts. Isn't that what it amounts to?

Though because of stray passages like those involving Senator Saltonstall and Representative Crumpacker the legislative history is not crystal clear, we think the weight of it favors Rohm & Haas' reading of the statute. We are further confirmed in our view of section 271 by observing that the extremely narrow reading favored by defendants, though plausible, does not rest especially well on the wording of the provision.

All the parties seem to agree that subsection (d)(1) means that a patentee may sell unpatented elements of his invention. We add that, because of the explicit limitation of the right to "acts constituting contributory infringement," a term defined in paragraph (c) immediately before, apparently a patentee who is attempting to completely

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Mr. Rich. That he shall not be denied his day or damages merely because he has done one, two, or three, or all of these acts if the contributory infringement referred to in (d) is of a type which falls within the specific terms of (c).

Now, a suggestion has come to me during this discussion which may bring the views of Justice and of the patent bar together. That would be to insert in the third line of paragraph (d) before the last word "by" the word "solely" so that he shall not be deemed guilty of misuse or illegal extension of patent rights solely by reason of his having dose one or more of the following.

If he has gone beyond those and done other acts which could be misuse, then the misuse doctrine would be applicable.

Mr. Rogers. But then even with the word "solely" we would still say to the Court that if he had done one of these, he could now be permitted to recover?

Mr. Rich. If he has not misused it otherwise. If it comes within the terms of (c). If he tries to license somebody, for instance, to manufacture a staple article of commerce, to be sold in a patented invention and collect royalties, let us say, for manufacturing of salt tablets to be used in a patented vending machine or dry ice to be used in a patented shipping container, that will be misuse because it doesn't come within the terms of (c).

1951 Hearings at 174-75.

foreclose competitors is safe from a misuse defense only in selling products that are nonstaples, material parts of his invention, and capable of no substantial noninfringing use.[24] Subsection (d)(2) additionally allows a patentee to "license" another to do those same sorts of acts — that is, acts that would be contributory infringement (the selling of appropriate nonstaples) if done without permission.[25]

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[24] The district court, in concluding that the rights specified in (d) are completely unrelated to the practices described in (c), overlooked the plain wording of the statute. Moreover, the intended incorporation of the limitations in (c) into the conduct allowed in (d) is, we think, clear from the legislative history set out at length in n.23, *supra*.

The official Revisory Notes to section 271, relied on below, state that paragraph (d) is "ancillary to" paragraphs (b) and (c). But we do not read this linkage of sections (d) and (b), which contains no limitation to nonstaple material parts of the invention, as allowing a patentee to sell staples *and* to sue under (d) to completely foreclose competing sellers.

Since case law does not presently consider a patentee's mere sale of staples used in his invention to be "misuse" (as long as he does not tie use of the invention to purchase of the staple), we view the linkage as allowing such an innocent patentee to sue under (d)(3), without thereby being deemed a misuser, a competing seller of staples who is "actively inducing" infringement. The patentee's relief, however, would not be an injunction forbidding the defendants' *sale* of staples, since mere sale is not wrongful under either (b) or (c). Appropriate relief might extend to an injunction against continuing to "actively induce" infringement, conduct forbidden by (b).

Reading (d) and (b) together more broadly so as to allow a patentee to tie mere staples to use of the invention would conflict with the clear legislative intent of preserving *Carbice*, while altering the *Mercoid* rule in favor of those who are not marketing their entire invention but are marketing material, nonstaple parts thereof. The broader reading would destroy the careful compromise of the drafters by endangering much more competition than the relatively small amount implicated in the markets for nonstaples uniquely attributable to a patented invention.

[25] This limitation parallels our interpretation in n.24 *supra* and accords with the statements by Mr. Rich quoted in n.23 that an attempt by a patentee to license a competitor to sell mere staples for use in the invention would survive as misuse and thus bar a suit to enforce the patent.

As a commentator has noticed, the rights to license another to sell such unpatented items would be rendered worthless if the only right conferred by (d)(1) were the right to sell the item as one competitor among many freely competing. Who would take a license, and on what terms, if anyone were free to compete, and the patentee had no legitimate right to exclude others from the market?[26] When one adds to this realization that in (d)(3) Congress has also given the patentee the cumulative right to enforce its patent against those doing without permission — without "license" — what the patentee itself is doing, the impression becomes almost overpowering that Congress *did* clearly provide for a patentee's right to exclude others and reserve to itself, if it chooses, the right to sell nonstaples used substantially only in its invention.[27]

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[26] The statute permits the patentee to "license" or "authorize others to do the same acts which he himself is permitted to to do by subsection (1). If the only act permitted by subsection (1) is the sale of components in competition with unlicensed suppliers, the "license" language is meaningless. Of what possible use is a "license" to compete when anyone can compete without a license? In order to give significance to the word "license," it must be assumed that the right of the patentee being licensed is somehow exclusive — that another supplier could not sell the component without the patentee's permission. If this is the case, both subsections must allow the patentee an exclusive right to sell components, precisely the type monopoly struck down in *Mercoid*.
Note, *Combination Patents: The Right to Prohibit the Sales of Replacement Parts*, 70 Yale L.J. 649, 656 (1961).

[27] The district court read (d)(2) as giving Rohm & Haas "the right to authorize a third party by virtue of an implied license to resell the propanil for use in the patented method." This seems to refer to the right of one who buys propanil from Rohm & Haas to resell it to someone else. But if so, (d)(2) simply restates what has always been the right of *any* purchaser of an item, patented or not. Once an item has been conveyed, it passes beyond the patentee's monopoly power and the buyer can use it or sell it as he wishes. *See, e.g., Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 21 L.Ed. 700 (1873), and, more recently, *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964). Surely no statute was required to save a license that operates as a *matter of law* from being deemed patent misuse.

The Supreme Court cases discussing section 271 are few and, as the able district court below recognized, none of

Defendants would have us impose a *requirement* that a patentee like Rohm & Haas offer erstwhile competitors licenses, available to all comers at a reasonable royalty rate. *Then*, they say, it would be permissible for Rohn & Haas to sell propanil under (d)(1) in competition with its licensees and under (d)(3) to sue all competitors who refuse to accept a license and pay royalties. And along similar lines, the district court deemed Rohm & Haas' marketing program as even greater misuse than that accomplished by Mid-Continent in *Mercoid*. Mid-Continent offered licenses and sued only the manufacturer Mercoid, which refused to take a license, whereas Rohm & Haas has *refused* to license competitors.

This line of reasoning certainly states an attractive possibility. It allows a patentee economically to market his invention, yet preserves competition in propanil, which is, after all, not patented. As attractive as this compromise is, however, we cannot discern it in the statute. On the contrary, the statute explicitly allows a patentee to do "one or more of the following" — and merely coupling (d)(1) with (d)(3) allows the result we ratify here. Opponents of the bill saw this clearly. in the 1949 Hearings, Mr. John C. Stedman, Chief of the Justice Department's Legislation & Clearance Section, Antitrust Division, stated:

> [(d)] sounds reasonable and innocuous enough. Its effect, however, is to permit a patentee to sell unpatented parts for a device or composition covered by his patent or sell unpatented materials or apparatus for use with a process patented to him, and at the same time prohibit his competitors, by suit for infringement, from selling such unpatented materials in competition with him. . . . This is exactly the type of practice which the courts have unequivocally and consistently condemned, both under the patent laws and under the antitrust laws.

1949 Hearings at 52.

We decline to rule that a patentee *must* license under (d)(2) in order to use his rights under (d)(1) and (d)(3). A general licensing obligation is foreign to a statutory scheme in which patentees are free to suppress entirely or reserve for themselves their inventions.

them controls. Of the cases decided in this area since 1952, most are either silent regarding the effect of section 271 on *Mercoid,* probably because they involve staple items, or else they simply cite with approval *Mercoid's* various summations of the misuse doctrine. And indeed, apart from the very narrow exception as to material nonstaples immunized by section 271, *Mercoid* remains an excellent summation of misuse considerations. Nevertheless, we cannot overlook the importance to our issue of two cases decided closely after section 271 was enacted, in which several members of the Court expressed the view that section 271 merely codifies patent law, including *Mercoid* and its result, and made no changes in the law such as those contended for by Rohm & Haas.

In *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.,* 365 U.S. 336, 81 S.Ct. 599, 5 L.Ed.2d 592 (1961) (*Aro I*), and *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.,* 377 U.S. 476, 84 S.Ct. 1526, 12 L.Ed.2d 457 (1964) (*Aro II*), the Court faced actions for contributory infringement based on a claim that defendant's cloth tops for convertibles aided an infringing reconstitution of the patented mechanical top, rather than a noninfringing repair of the item. In *Aro I,* in the course of rejecting the claim, the majority cited *Mercoid* for the principle that the separate unpatented elements of a combination patent are not protected by the patent monopoly. The technical ground of the opinion, however, seemed to be the determination that the purchaser of an auto with a convertible top gains, along with the right to use the top, the right to replace its worn out parts. Unless his actions are so extensive as to become a prohibited reconstruction, his action in replacing, for example, fabric portions of the top, does not constitute an infringing action. Without someone's committing of a *direct* infringement, there was of course no predicate for contributory infringement, there was no tort being committed in which the seller of replacement tops could participate. Justice Harlan, joined by two others, dissented, arguing that the majority's reliance on *Mercoid* destroyed the significance of cases such as *Leeds & Catlin* that gave relief against contributory infringement on principles approved by Congress in section 271.

In *Aro II* Justice Brennan wrote for a different majority. In *Aro I* he had agreed with Justice Harlan's view of section 271 but had concurred with the majority on the simple ground that without a direct infringement no contributory liability was possible. The new majority now distinguished *Aro I* as involving only car buyers from manufacturers who had been *licensed* to make the patented convertible top in auto construction. In *Aro II,* by contrast, the replacement tops were also designed to renew the covering on cars manufactured by a company that had *refused* a patent license. The Court held in part that because this unlicensed manufacturer had no right to construct or convey the invention, buyers of these cars received no right even to *use* the invention, much less the right to repair it. Because the Court deemed each such repair by those buyers an independent direct infringement, the knowing seller of replacement tops was open to liability as a contributory infringer.

Justice Black, who had specially concurred in *Aro I* in part to emphasize his view that section 271 merely codified the *Mercoid* result, spoke for himself and three other dissenters. The real basis for *Aro I,* he argued, was not merely the lack of a direct infringement but also the recognition grounded in the misuse cases that the scope of a patent can never properly extend to unpatented elements. He vehemently disapproved the majority's result, charging that the patentee was being allowed to expand its monopoly,

an unconstitutional result not within congressional patent clause powers.[28]

Had this been all there was to the *Aro II* case, it would have been strong support for our reading of section 271. Unfortunately, however, the extraordinarily complex opinions, on balance, probably cut against our view.[29] Because

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[28] The majority responded to this point by simply stating that they had "no doubt that § 271(c) as so construed and applied, within the limitations set forth in the succeeding portions of this opinion, is constitutional" 377 U.S. at 492 n.10, 84 S.Ct. at 1535 n.10.

Defendants herein also challenge the constitutionality of the interpretation of the statute we have adopted. We believe, however, that it is well within congressional power to allow certain patentees incidental market power over items not technically within the patent grant when this is necessary to effectively market and protect a patented invention.

[29] For instance, the majority left open the possibility that the patentee and its licensee might have been barred by the patent misuse doctrine had the issue been properly preserved by the defendant. 377 U.S. at 491-92, including n.9 84 S.Ct. 1526.

Moreover, the majority spoke of the congressional purpose in enacting section 271 as the desire to "reinstat[e] the doctrine of contributory infringement as it had been developed by decisions prior to *Mercoid*, and [to] overrul[e] any blanket invalidation of the doctrine that could be found in the *Mercoid* opinion." *Id.* Any correlative effect upon the misuse doctrine was not alluded to.

At another point the Court cited *Carbice* and *Mercoid* for the general proposition that a patentee cannot impose conditions concerning the unpatented supplies, ancillary materials, or components with which the use is to be effected. 377 U.S. at 497, 84 S.Ct. 1526. The context of these remarks is quite different from the situation before us, since the attempt in *Aro* to restrict the sources of supplies for future repairs violated the long-standing patent principle that when a patentee has *sold* a patented article he has granted the purchaser an implied license to use, and he cannot thereafter restrict that use. "So far as the use of it was concerned, the patentee had received his consideration, and it was no longer within the monopoly of the patent." *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456, 21 L.Ed. 700 (1873). This principle is not involved in our situation.

the policies involved in our factual situation — a primary use market — differ so from the policies involved in protecting competition in a market for unpatented elements to be used as mere replacement parts at the hands of one with a legitimate right to tinker with a patented device by reason of his absolute ownership thereof, we consider the *Aro* opinions as not controlling the result of our case.[30] In line with an earlier panel that concluded in dictum that section 271 "was intended to work some changes" in the

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Nevertheless, there remains a suggestion that perhaps the majority would have considered any conditioning or tying as misuse, still prohibited irrespective of section 271(d).

And finally, though the majority upheld the plaintiff's right to recover damages from the contributory infringer, it practically instructed the district court not to award more than nominal damages. In addition to a reluctance to let a patentee bypass a ready target — the direct infringer auto manufacturer — to reach the contributory infringer who competes in the submarket, the policies behind this measure of damages were firmly based on misuse principles:

> [A different measure of damages] would enable the patentee to derive a profit not merely on unpatented *rather than* patented goods — an achievement prescribed by the *Motion Picture Patents and Mercoid Cases,* supra — but on unpatented *and* patented goods.

377 U.S. at 510, 84 S.Ct. at 1544 (original emphasis). The Court also stated that such a result "would be at war with virtually every policy consideration in this area of the law." *Id.*

[30] In addition to the *Aro* cases, the defendants cite *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972), *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation*, 402 U.S. 313, 91 S.Ct. 1434, 28 L.Ed.2d 788 (1971), and *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 89 S.Ct. 1562, 23 L.Ed.2d 129 (1969), as evidence of the continued validity of *Mercoid*. It is true that these cases contain ringing endorsements of patent misuse theory concerning the proper scope of a patent. However, we decline to rely on their general statements, made in context far afield from a patentee's effort economically to market his invention by sale of its unique, nonstaple elements, to reach a result contrary to the one we see so clearly in the statutory words and its legislative history.

concepts of patent misuse and that section 271 was "a congressional disapproval and legislative modification of the court-fashioned *Mercoid* principles," we do not feel that our independent consideration of section 271 is precluded by the "varying views" expressed by the justices in *Aro. Fromberg, Inc.* v. *Thornhill,* 315 F.2d 407, 414 n.18 (5th Cir. 1963).

With this, we have about exhausted our present capacity for rational thinking on patent matters. As we noted during the oral argument of this case, patent cases are the only cases argued by professionals and decided by amateurs. We take some comfort in noting that any shortcomings of our effort can safely be laid to the difficulty of the subject matters. Mr. Giles S. Rich observed on several occasions during the hearings on section 271 that patent law is "the metaphysics" of the law and that contributory infringement/patent misuse issues are the metaphysics of patent law. In remanding this matter for further proceedings consistent with the above views, we gratefully leave untouched a correlative issue not technically before us: whether our analysis, coupled with the statutory command that patentees doing activities mentioned in (d) cannot be "deemed guilty of misuse or illegal extension of the patent right," affects the antitrust counterclaim filed herein by the defendants.

REVERSED and REMANDED.

IN THE

United States Court of Appeals

FOR THE FIFTH CIRCUIT

No. 76-4511

D. C. DOCKET NO. CA-74-H-790

ROHM AND HAAS COMPANY,
Plaintiff-Appellant, Cross-Appellee.

v.

DAWSON CHEMICAL COMPANY, INC., ET AL.,
Defendants-Appellees, Cross-Appellants.

APPEALS FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF TEXAS

Before GEE and VANCE, Circuit Judges, and HUNTER,* District Judge.

JUDGMENT

This cause came on to be heard on the transcript of the record from the United States District Court for the Southern District of Texas, and was argued by counsel;

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be, and the same is

hereby, reversed; and that this cause be, and the same is hereby remanded to the said District Court in accordance with the opinion of this Court;

It is further ordered that the defendants-appelles pay to the plaintiff-appellant the costs on appeal, to be taxed by the Clerk of this Court.

July 30, 1979

*District Judge of the Western District of Louisiana, sitting by designation.

ISSUED AS MANDATE: AUG. 24, 1979

FEB 6 1980

EXHIBITS

IN THE

Supreme Court of the United States

OCTOBER TERM 1979

No. 79-669

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION AND
CRYSTAL CHEMICAL COMPANY

Petitioners,

v.

ROHM AND HAAS COMPANY,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

PETITION FOR CERTIORARI FILED OCTOBER 24, 1979
CERTIORARI GRANTED JANUARY 7, 1980

IN THE

Supreme Court of the United States

OCTOBER TERM 1979

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DAWSON CHEMICAL COMPANY,
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United States Patent [19]

Wilson et al.

[11] **3,816,092**

[45] **June 11, 1974**

[54] HERBICIDAL 3,1-DICHLOROANILIDES

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[22] Filed: **Mar. 16, 1961**

[21] Appl. No.: **96,089**

Related U.S. Application Data

[60] Division of Ser. No. 31,253, May 24, 1960, abandoned, which is a continuation-in-part of Ser. No. 714,947, Feb. 13, 1958, abandoned.

[52] U.S. Cl. 71/118
[51] Int. Cl. A01n 9/20
[58] Field of Search 71/2.3, 118; 260/562

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[57] **ABSTRACT**

Disclosed is a method for selectively inhibiting growth of undesirable plants in an area containing growing undesirable plants in an established crop, which comprises applying to said area 3,4-dichloropropionanilide at a rate of application which inhibits growth of said undesirable plants and which does not adversely affect the growth of said established crop.

12 Claims, No Drawings

HERBICIDAL 3,1-DICHLOROANILIDES

This application is a division of application Ser. No. 31,253, filed May 24, 1960, which, in turn, was a continuation-in-part of Ser. No. 714,947, filed Feb. 13, 1958, both now abandoned.

This invention deals with the 3,4-dichloroanilides of propionic, isobutyric, and also α-methylvaleric acids. It has been discovered that these compounds possess marked herbicidal activity. Of these three new compounds, 3,4-dichloropropionanilide is outstandingly active, and while the other two anilides are somewhat less potent as herbicides, they nevertheless exhibit an unexpected level of such activity. There are other secondary differences which will be discussed below.

During the past years, there has been an intensified search for weedicides and herbicides. While various useful substances have been developed, there is still need for agents which have a better balance of properties or which exhibit special properties. For example, most of the currently utilized herbicides are primarily effective against dicotyledonous plants. Some compounds are highly toxic to all types of plants and thus lack the selectively and differential characteristics which are necessary for many applications. In meeting such needs, the present compounds provide a significant advance. The chemical literature contains reference to a number of monochloroanilides of monocarboxylic acids and also to 2,4-dichloropropionanilide. Shaw et al. examined 3-chloroisobutyranilide and 3-chloroacetanilide, and reported but slight herbicidal activity for this type of compound. Our studies have confirmed these findings.

We have also studied the action of 2,4-dichloroanilides and have found that, although the 2,4-dichlorophenyl group may be potent in certain kinds of molecular structures, it is markedly less active and desirable than our Novel N-3,4-dichlorophenyl carboxylic amides. Furthermore, we have found that the carboxylic amide groups which provide herbicidal activity are highly selective and specific.

It is clear, therefore, that herbicidally active agents in this field of chemistry cannot be predicted from the prior knowledge of compounds which have been demonstrated to exhibit herbicidal activities.

Objects of this invention include providing herbicidal agents which are active against a wide variety of plants, which are thus active at low concentrations and rates of application, and at concentrations and rates which provide differential and controllable effects, as through rate of application, time of application, or method of application. It is also an object to provide chemical substance which may be used to control weeds among established crops.

We have discovered specific compounds which meet the above objects and needs more nearly than previously known compounds. These are 3,4-dichloro-α-methylvaleranilide, 3,4-dichloroisobutyranilide, and 3,4-dichloropropionanilide, which anilides are active against a wide spectrum of plants and yet capable of differential applications.

A good process for preparing these compounds comprises taking up 3,4-dichloroaniline in a volatile, inert, organic solvent and reacting it with the appropriate carboxylic acid or its acid anhydride or its acid halide. In the last case, an alkaline reagent is supplied to take up the hydrogen halide split out. If the carboxylic acid is reacted, the mixture is heated under reflux with removal of water carried over by the azeotroping liquid.

The solvent is desirably a volatile naphtha, benzene, toluene, xylene, dichloroethane, dichloropropane, trichloroethane, or other volatile, inert hydrocarbon or chlorinated hydrocarbon.

With an acyl halide or anhydride, temperature of reaction may be from about 10° to 50° C. When carboxylic acid is used, reaction temperatures may vary from 50° to 150° C. and are conveniently controlled by heating the reaction mixture at reflux temperature.

Typical preparative procedures are shown in the following example, which is presented for purposes of illustration and not by way of limitation. Parts given are by weight unless otherwise designated.

PREPARATION 1

There are mixed 18 parts of 3,4-dichloroaniline and 130 parts of benzene. This mixture is stirred with 91 parts of an aqueous 22.5 percent sodium hydroxide solution and thereto is slowly added at about 25° to 30° C. 46.2 parts of propionyl chloride. External cooling is applied to control the temperature. The reaction mixture is stirred for an additional two hours and left standing to form layers. The organic layer is taken and diluted with about 250 parts by volume of octane. The product precipitates as a white solid. It is filtered off and dried to give 96 parts of 3,4-dichloropropionanilide melting at 91° C. It is recrystallized from aqueous alcohol and then melts at 92° to 93° C. By analysis the product contains 32.2 percent of chlorine (theory 32.4 percent).

The compounds of this invention may be applied to the plants to be treated from aqueous sprays or from dusts. Usually the rates of application are from about 0.5 lb. per acre to 20 lbs. per acre, depending in part upon such facts as formulation used, the type of application, the stage of growth, and the end result desired.

Aqueous sprays may be based on an emulsifiable concentrate or upon a wettable powder. A useful type of emulsifiable concentrate may be prepared from 25 parts of one or more of the 3,4-dichloroanilides of this invention, 40 to 50 parts of isophorone, 20 to 30 parts of an aromatic naphtha or xylene or toluene or mixtures of such solvents, and 2 to 10 parts of one or more solvent-soluble emulsifying agents. Small amounts of blending or coupling agents may be used to assist in forming a homogeneous solution, such as methanol, methoxyethanol, or butoxyethoxyethanol.

A typical useful emulsifier is prepared from 1 to 1.5 parts of calcium dodecylbenzene sulfonate or sodium dioctylsulfosuccinate, 2.5 to 4 parts of an octyl- or nonyl-phenoxypolyethoxy-ethanol together with about 0.5 to 1 parts of methanol and 0 to 0.5 part of xylene. The resulting mixture may be added to the above proportions of solvents and anilide or mixture of anilides. But other surface active agent or agents may be used.

The particular agent used is primarily a matter of choice and convenience. There may be used an anionic, cationic, or non-ionic emulsifying agent which is solvent-soluble. In place of the above-mentioned non-ionic agent derived from an alkylphenol and ethylene oxide, there may, for example, be used ethylene oxide condensates of long-chained alcohols, carboxylic acids, thiols, or amines. Compounds of all these types are

available commercially. Also, non-ionic condensates of polyglycerols and fatty acids, or of polyglycerols, fatty acids, and a resin-forming acid, such as phthalic acid, find use in preparing self-emulsifying compositions. Typical anionic agents are based on alcohol sulfates or sulfonates, or sulfosuccinates. Solvent-soluble cationic surface active agents may be represented by oleylbenzyldimethylammonium chloride or dodecylbenzyltrimethylammonium chloride or bromide. As can be seen, the exact nature of the emulsifier is not critical, provided it is soluble in the solution of 3,4-dichloroanilide in one or more inert organic solvents.

A wettable powder may be prepared by taking up one of the 3,4-dichloroanilides of this invention in a volatile solvent, such as acetone, and applying it to finely divided solid, such as kaolin, pyrophyllite, or diatomaceous earth with evaporation of solvent. The powder is heated with small amounts of one or more wetting and dispersing agents. A typical formula is 20 parts of a 3,4-dichloroanilide of this invention, 77.5 parts of one or more finely divided solids, 0.5 part of a wetting agent such as an octylphenoxypolyethoxyethanol, and 2 parts of the sodium salt of condensed naphthaleneformaldehyde sulfonate.

Dusts containing 5 to 10 percent of active agent may be prepared by diluting such a wettable powder with finely divided solid carrier. If desired, the wetting agent, octylphenoxypolyethoxyethanol, may be omitted and the dispersing agent may be omitted or varied, as desired.

In any of the herbicidal compositions such as described above, there may be used an individual 3,4-dichloroanilide of this invention or a mixture of two or three of these. The compositions will include a carrier and in most cases a surface active agent.

A standard method for comparision of herbicidal agents as used in evaluating the compounds of our invention, related compounds, and other compounds, comprises planting crop and weed seeds in soil in flats, allowing the seed to germinate and the seedlings to develop, and treating the resulting plants with a spray or dust about two weeks after the seeds are planted. About two weeks later, the state of growth and the phytotoxic effects are evaluated. Sprays are applied usually at a standard carrier rate of 50 gallons per acre and the concentration of herbicidal agent varied to supply it at the desired rate; e.g. 1, 2, 3, 5 or 10 pounds per acre. In some tests the carrier rate may be varied, as to 10 or 20 gallons per acre, as would be practiced with highly dispersed sprays under high pressures. Carrier rates may also be increased if desired. The rate of application of agent appears to be the more critical factor, rather than merely the concentration. Comparisions may also be carried out in the field.

Monocotyledonous plants used in the present studies included crabgrass, foxtail, millet, wheat, ryegrass, wild oats, and Johnson grass.

Dicotyledonous plants used included beans, flax, pepper grass, plantain, lamb's quarter, chickweed, curly dock, pigweed, ragweed, scarlet pimpernel, and purslane.

When monocotyledonous plants were treated in the standard flats, kills of 98 and 99 percent respectively were obtained at the rates of 5 to 10 pounds per acre when 3,4-dichloropropionanilide was used as the agent and applied from liquid sprays. In comparison tests performed at the same time and under the same conditions, 2,5-dichloropropionanilide gave kills of 0 and 10 percent respectively at rates of 5 and 10 pounds per acre, while 2,4-dichloropropionanilide gave kills of 3 and 12 percent respectively at these rates. These data bring out the very unusual capacity of the 3,4-dichloroanilides of this invention to control monocotyledonous plants.

As might be expected, dicotyledonous plants are somewhat more sensitive to herbicidal agents in general. Thus, 2,5-dichloropropionanilide gave kills of 10 and 23 percent respectively at these same rates, while the 2,4-dichloropropionanilide gave kills of 15 and 20 percent respectively. In contrast, 3,4-dichloropropionanilide gave controls of 98 and 99 percent respectively at these same rates. Even against the more susceptible type of plants, it is clear that the 3,4-dichloropropionanilide is greatly more effective than the comparable 2,4-dichloroanilide and 2,5-dichloroanilide.

Comparisons were made for a series of 3,4-dichloroanilides of various monocarboxylic acids. The data summarizing results are presented in Table I.

They demonstrate the remarkable herbicidal action of the compounds of this invention and the highly selective action of these particular dichloro compounds.

TABLE I

Compound	POST-EMERGENCE PHYTOTOXICITY AT RATE OF 1 LB/ACRE				
	Crabgrass	Foxtail	Wild Oats	Millet	Mallow
$CH_3CONHC_6H_2Cl_2$-3,4	30	13	13	27	57
$C_2H_5CONHC_6H_2Cl_2$-3,4	100	90	83	100	100
$i\text{-}C_3H_7CONHC_6H_2Cl_2$-3,4	90	75	88	100	93
$n\text{-}C_3H_7CONHC_6H_2Cl_2$-3,4	43	13	10	52	95
$C_2H_5CH(CH_3)CONHC_6H_2Cl_2$-3,4	100	93	100	95	
90					

Comparisons were also made of the activities of the 3,4-dichloroanilides of this invention against activities of 3-chloropropionanilide, 4-chloropropionanilide, 3-chloroisobutyranilide, and 4-chloroisobutyranilide. Test data are summarized in Table II. They show the remarkable effectiveness of the dichloroanilides of this invention against a variety of typical plants. They also show that monochloro analogues are much less effective. It might be connected that the 3- or 4-chloro-α-methylvaleranilides are much less active than the other monochloroanilides, data for which are given in Table II, and their activities are too low to be of any significance.

TABLE II

POST-EMERGENCE PHYTOTOXICITY AT RATE OF 1 LB./ACRE						
Compound	Sorghum	Crabgrass	Foxtail	Wild Oats	Millet	Mallow
$C_6H_5CONHC_6H_4Cl$-3	10	3	3	7	7	22
$C_6H_5CONHC_6H_4Cl$-4	20	43	17	17	36	50
$C_6H_5CONHC_6H_3Cl_2$-3,4	92	100	90	83	100	100
i-$C_3H_7CONHC_6H_4Cl$-3	30	27	13	17	25	40
i-$C_3H_7CONHC_6H_4Cl$-4	27	40	13	17	33	57
i-$C_3H_7CONHC_6H_3Cl_2$-3,4	88	90	75	88	100	93
$C_6H_5CH(CH_3)CONHC_6H_3Cl_2$-3,4	90	100	93	100	95	

The effective weedicidal action of 3,4-dichloropropionanilide, 3,4-dichloroisobutyranilide, and 3,4-dichloro-α-methylvaleranilide is also established by data obtained in the field. When these compounds are applied from aqueous sprays to weeds which have supported from 1 to 3 weeks prior to treatment, excellent control is obtained at rates of 1 to 6 pounds per acre for both monocotyledonous and dicotyledonous plants.

Another study under field conditions has been concerned with control of annual grasses and weeds growing among perennial grasses using 3,4-dichloropropionanilide. At suitable rates, such as one to two pounds per acre, it was observed that the annual grasses and weeds can be controlled without injury to the perennial grasses. This makes it possible to control crabgrass, foxtail, chickweed, and the like in established lawns.

these weights of compounds being used in 50 gallons of water. Excellent control of weeds was provided without any damage to the established potato plants. Harvested potato tubers were of excellent yield and quality.

Sprays at 2, 4 and 6 pounds per acre were similarly applied to established tomato plants about the middle of July. The tomato plants continued to grow and mature without weeds being present, even up to the middle of September. At rates of 2 to 4 pounds per acre, there was no more than slight injury to the tomato plants. At 6 pounds per acre, there may be some slight injury shortly after the plots were sprayed, but this is not permanent.

Typical test data relating to the control of weeds in field-grown tomatoes are presented in Table III. Plots were sprayed on July 12 at the indicated rates. Counts of weeds were made on September 13 and compared with weeds on unsprayed control plots.

TABLE III

WEED CONTROL IN TOMATO PLOTS					
Compound	Percent Control				
	Appln. Rate	Crabgrass	Foxtail	Barnyard Grass	Pigweed
$C_6H_5CONHC_6H_3Cl_2$-3,4	2 lb./A	100	90	90	97
$C_6H_5CONHC_6H_3Cl_2$-3,4	4 lb./A	100	100	100	100

Compound	Percent Control				
	Appln. Rate	Lamb's Quarter	Ragweed	Smartweed	Purslane
$C_6H_5CONHC_6H_3Cl_2$-3,4	2 lb./A	95	93	100	95
$C_6H_5CONHC_6H_3Cl_2$-3,4	4 lb./A	100	100	100	100

In field tests, it was also demonstrated that weeds can be controlled in perennial legumes. Sprays applied to dormant alfalfas and clovers in fall, winter, and early spring effectively destroy undesired grasses and weeds without any permanent harm to the desired plants, rates of one to six pounds per acre in 50 gallons of spray being used.

In an orchard in which clover was used as a ground cover there was applied a spray of 3,4-dichloropropionanilide at the rate of two pounds per acre. Weeds of many types, including particularly chickweed and also foxtail, were controlled. There was some defoliation of the clover, but this was only temporary, new leaves soon appearing.

A strawberry bed was sprayed after the close of the picking season, the compound of this invention being used at one and two pounds per acre. Weeds were controlled without evidence of injury to the established strawberry plants. Weeds controlled included crabgrass, foxtail, pigweed, lamb's quarter, smart weed, and ragweed.

A potato patch was sprayed two weeks after the final cultivation with aqueous sprays of the compound of this invention at rates of 2, 4 and 6 pounds per acre.

The 3,4-dichloroanilide of this invention can be effectively used for control of annual weeds in such crops as corn, potatoes, tomatoes, sugar cane, and pineapples.

The 3,4-dichloroanilides of this invention can be used to eliminate growing plants generally by applying 3,4-dichloroanilide at 10 to 50 pounds per acre. Such treatments are useful in preparing areas for capping with asphalt mixes, for example. On the other hand, these compounds can be used for selective control of undesirable plants. If the undesirable plants are in a tender or succulent state, they can be eliminated without destroying established plants in the same area. If directed sprays are used between established plants, weeds can be controlled over a wide range of rates of application, as from 1 to 10 pounds per acre. On the other hand, general applications can also be made, and at safe rates; such as 0.5 to 6 pounds per acre, with selective action.

Of the three compounds set forth in this application, 3,4-dichloropropionanilide, 3,4-dichloroisobutyranilide, and 3,4-dichloro-α-methylvaleranilide, only 3,4-dichloropropionanilide has proven to be uniquely selective insofar as its effect

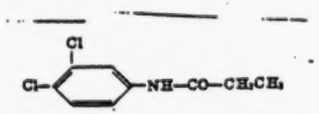
on rice is concerned. Greenhouse tests on rice and the monocots and dicots set forth hereinafter have provided the data set forth in Table IV.

In the table, the rice injury rating is based on a 0 to 10 scale with 10 equal to complete kill. Each anilide was applied to a group of six monocot species (sudan, millet, barnyard grass, crabgrass, orchard grass and foxtail) and seven dicot species (pigweed, curly dock, Indian mallow, mustard, chickweed, sorrel, and lamb's quarter) at application rates of ½, 1, 2 and 4 lb./A (pounds per acre). The percent phytotoxicity values given in the table were obtained by averaging the herbicidal activity on all species (monocot and dicots separately) at the four application rates. Consequently, a considerable amount of data is summarized in the values and, therefore they can be considered as highly reliable measures of the hermicidal activity of the compounds. These data show the remarkable and completely unexpected specificity of 3,4-dichloropropionanilide insofar as non-phytotoxicity to the rice and high phytotoxicity to the undesired weeds and grasses are concerned. It should be noted that even at applications far in excess of those necessary to effect very efficient control of the undesired weeds and grasses, there is only negligible injury to the rice. Thus, at 8 pounds per acre, at least twice the application rate necessary for weed and grass control, there is only 10 percent rice injury. Whereas 3,4-dichloroisobutyranilide and 3,4-dichloro-α-methylvaleranilide effect efficient control of the undesired weeds and grasses, they cause much too high rice injury and could not be used to control undesired plant growth in rice.

TABLE IV

	RICE INJURY RATING APPLICATION RATE-LB/A					% PHYTOTOXICITY MONOCOTS	% PHYTOTOXICITY DICOTS
COMPOUND	1	2	4	6	8		
3,4-dichloropropionanilide	0	0	0	0.5	1.0	77	96
3,4-dichloroisobutyranilide	2	3	6	7	9	70	92
3,4-dichloro-α-methylvaleranilide	6	7	10	10	10	83	100

The structural formula of 3,4-dichloropropionanilide is



The compound can also be named N(3,4-dichlorophenyl)propanamide, N(3,4-dichlorophenyl)-propionamide or 3', 4'-dichloropropionanilide.

We claim:

1. A method for selectively inhibiting growth of undesirable plants in an area containing growing undesirable plants in an established crop, which comprises applying to said area 3,4-dichloropropionanilide at a rate of application which inhibits growth of said undesirable plants and which does not adversely affect the growth of said established crop.

2. The method according to claim 1 wherein the 3,4-dichloropropionanilide is applied in a composition comprising 3,4-dichloropropionanilide and an inert diluent therefor at a rate of between 0.5 and 6 pounds of 3,4-dichloropropionanilide per acre.

3. The method according to claim 1 wherein most of the undesirable plants are destroyed by the 3,4-dichloro-propionanilide applied thereto without substantial adverse effect on the crop growing therewith.

4. The method according to claim 1 wherein the established crop is tomatoes.

5. The method according to claim 1 wherein the established crop is potatoes.

6. The method according to claim 2 wherein the established crop is monocotyledonous.

7. The method according to claim 2 wherein the established crop is dicotyledonous.

8. The method according to claim 2 wherein the undesirable plants include monocotyledonous plants.

9. The method according to claim 2 wherein the undesirable plants include dicotyledonous plants.

10. The method according to claim 2 wherein the established crop is a grain crop.

11. The method according to claim 2 wherein the undesirable plants include barnyardgrass.

12. A method for selectively inhibiting the growth of growing, tender, undesirable, annual plants which are susceptible to 3,4-dichloropropionanilide, said undesirable plants growing in an area containing an established monoctoyledonous crop which is resistant to 3,4-dichloropropionanilide, which comprises applying to said undesirable plants a composition comprising 3,4-dichloropropionanilide and an inert carrier therefor at a rate of application which inhibits growth of said undesirable plants and which does not substantially affect the growth of said established monocotyledonous crop.

* * * * *

CRYSTAL PROPANIL

POST EMERGENCE GRASS AND WEED KILLER

ACTIVE INGREDIENT 3', 4'-dichloropropionanilide*	33%
INERT INGREDIENT	67%
*Equal to 3 lbs. of the active ingredient per gallon.	100%

WARNING: KEEP OUT OF REACH OF CHILDREN.

Avoid breathing spray mist. Harmful if swallowed, absorbed through the skin. Do not get in eyes or on skin or in clothing. In case of contact, flush skin and eyes with plenty of water; for eyes — get medical attention. Do not take internally. May cause skin irritation. Do not store near food or feed. Do not contaminate streams, lakes, or ponds with this material. Do not store at temperatures below 15° F.

CONSULT STATE AGRICULTURAL EXPERIMENTAL STATION OR EXTENSION SERVICE WEED SPECIALISTS FOR FURTHER RECOMMENDATIONS ON DOSAGE, TIMING, WATER MANAGEMENT, AND CULTURAL PRACTICES TO MEET LOCAL CONDITIONS.

DIRECTIONS FOR USE: CRYSTAL PROPANIL is a selective post-emergence herbicide for control of barnyard grass and certain other weeds in rice. CRYSTAL PROPANIL contains 3 lbs. active ingredient per gallon and is mixed with water for spraying. To avoid injury to rice do not mix with insecticides or liquid fertilizer or apply them separately either before or after CRYSTAL PROPANIL treatment, unless such treatments are recommended by State Agricultural Experiment Station or Extension Service Weed Specialists following thorough testing.

TIMING AND DOSAGE: Use CRYSTAL PROPANIL at 1 to 2 gallons (3 to 6 lbs. active) per acre according to the stage and condition of growth of grass. Grasses and weeds should be succulent and growing actively when treated. Optimum temperatures are from 65° to 90° F. Do not use when daytime temperatures below 50° or above 100° F. are expected. The higher dosage is required for stunted, deep rooted grasses growing in very dry surface soil, and for large-tillering grass. Usually one application is sufficient. If retreatment is necessary apply as soon as need is evident.
Use 1 gallon CRYSTAL PROPANIL (3 lbs. active) per acre for actively growing grass in 1 to early 4-leaf stage with shallow roots.
Use 1½ to 1½ gallons CRYSTAL PROPANIL (4 to 4½ lbs. active) per acre for actively growing grass in 4 to 5 leaf and early tillering stage, or for stunted 1 to 4 leaf grass with deeper roots growing in dry soil. Use 1½ to 2 gallons CRYSTAL PROPANIL (5 to 6 lbs. active) per acre for tillering grass, 8 to 12 inches tall, only in emergency conditions. Only partial control may be expected.

TO AVOID RESIDUES AT HARVEST, DO NOT APPLY AFTER FULL TILLERING OF RICE OR WITHIN 56 DAYS BEFORE HARVEST. DO NOT EXCEED A TOTAL OF 8 LBS. ACTIVE PER ACRE PER SEASON.

METHOD OF SEEDING: CRYSTAL PROPANIL may be used on dry planted (drilled or broadcast) or on muddy or clear water planted rice. For best results, field should be uniformly level and have well prepared seedbeds free of large clods to encourage uniform and rapid emergence of rice, grass and weeds. Adequate inlets, drains and cross-levees should be provided to permit quick draining, flushing or flooding before and after treatment to meet the optimum water requirements for the rice crop and for optimum use of CRYSTAL PROPANIL in grass control.

WATER MANAGEMENT BEFORE TREATMENT:

Dry Planting: Plant in a moist seedbed, or flush to germinate the rice.
Muddy Water Planting: The planting flood is usually drained 1 to 3 days after seeding.
Clear Water Planting: Planting flood may be deep or shallow but is lowered as soon as the rice is "pegged". Maintain a shallow flood or intermittent flushing until the rice is well rooted. Avoid deep flooding from time of pegging until treatment; this encourages tall, spindly rice which may lodge in the mud after draining.

IN ALL METHODS OF PLANTING, FLUSH THE FIELDS AS OFTEN AS NEEDED TO PREVENT DRYING AND SOIL CRUSTING AND TO AID THE EMERGENCE OF RICE AND GRASS. DURING PERIODS OF HIGH TEMPERATURE, DRYING WINDS AND LOW RAINFALL, IT IS ESPECIALLY IMPORTANT TO FLUSH OFTEN ENOUGH TO KEEP THE GRASS GROWING ACTIVELY AND THUS MORE SUSCEPTIBLE TO THE OPTIMUM DOSAGE OF CRYSTAL PROPANIL. ALL OR MOST OF THE WATER SHOULD BE OFF THE FIELD AT THE TIME OF SPRAYING TO ALLOW FULL COVERAGE OF THE GRASSES AND WEEDS.
Treat grassy and weedy fields with CRYSTAL PROPANIL when a satisfactory stand of rice that tolerates flooding is established. Follow the recommendations according to the stage and condition of the growth of the grass as shown above under Timing and Dosage.

WATER MANAGEMENT AFTER TREATMENT: TREATED FIELDS SHOULD ALWAYS BE FLOODED BEFORE A SECOND INFESTATION OF GRASS HAS A CHANCE TO DEVELOP BEYOND THE ONE-LEAF STAGE. Start flooding in 12 to 24 hours in warm, sunny weather if treatment has been made on actively growing grass in moist soil. During cool, cloudy weather or if treatment is made on slow growing grass in dry soil, delay flooding until 2 to 5 days afterwards to allow maximum time for kill. Cover the grass completely and maintain the flood at least 2 inches deep on the highest parts of the field even though the rice is submerged temporarily. As the rice grows above the water, deepen the flood accordingly. In general, rice can be grown with shallower flooding after CRYSTAL PROPANIL treatment than when water flooding after is used for grass control.

FERTILIZER: Fields to be treated with CRYSTAL PROPANIL may be fertilized before or at planting time. Place nitrogenous fertilizer 2 to 4 inches deep to minimize loss during periods when the fields are drained. Fertilizer may also be applied just before flooding. Apply nitrogen at any appropriate time. Do not use CRYSTAL PROPANIL fertilizer in combination application.

APPLICATION EQUIPMENT: Apply CRYSTAL PROPANIL with aircraft or ground sprayers. Carefully calibrate and adjust equipment to give medium-fine droplets in a uniform pattern that provides complete coverage. Flush sprayers with clear water after each day's use. Clean all equipment used for CRYSTAL PROPANIL with a detergent rinse, followed by a clear water rinse, before and after spraying other materials or other crops such as cotton, soybeans, vegetables, fruits, etc. Applicators and flagmen should avoid contact with spray mist from CRYSTAL PROPANIL or any pesticides and should wear protective clothing and goggles. Wash thoroughly after exposure.

AIRCRAFT: Fixed wing or helicopter agricultural aircraft equipped with well designed spray distribution systems that produce a uniform medium-fine droplet spray may be used for CRYSTAL PROPANIL. Gravity flow fertilizer sprayers or venturi-type spreader-seeders should not be used. Apply CRYSTAL PROPANIL in no less than 10 gallons total spray per acre with standard boom-nozzle or with "Swathmaster" sprayers. Somewhat higher gallonages are suggested for extra thick or tall grass. Five gallons per acre appear satisfactory with "Micronair Rotary Atomiser" sprayers. Swath width is governed by the design of the aircraft, its spray distribution system and its operation, and should be pre-determined for each unit. Generally, the optimum swath width should not exceed the wing span of the aircraft, and is frequently less. Swaths must be measured accurately for flagging. Excessively wide or narrow swaths result in streaking and uneven distribution.

GROUND SPRAYERS: Standard low pressure herbicide sprayers equipped with flat fan or boom-jet nozzles are satisfactory. Use nozzles which deliver a medium-fine droplet in 15 to 40 gallons total spray per acre at 40 to 50 psi and at ground speeds not in excess of 3 to 4 m.p.h. Because of the contour levees in most rice fields, special care is needed to avoid skips and double spraying, and to avoid raising the boom too high so the spray fails to reach the weeds uniformly.

OPERATION CONDITIONS: Do not apply with aircraft when winds exceed 4 to 5 m.p.h. or with ground equipment with winds over 6 to 8 m.p.h. A cross-wind during spraying is desirable to equalize distribution. Fields may be treated when grass is either dry or wet with dew. Do not spray if rain threatens in 6 hours.

DRIFT HAZARD TO OTHER CROPS: CRYSTAL PROPANIL injures most crops except cereal grains and perennial grasses. Avoid drift or accidental application from turning aircraft on cotton, soybeans, corn, safflower, seedling legumes, vegetables, orchards, vineyards, gardens, shrubs, and ornamentals. Do not spray within ½ mile of sensitive crops downwind with either air or ground equipment when winds reach maximum recommended velocity for application. Do not spray within 50 feet with aircraft, or within 10 feet with ground equipment of sensitive crops on the upwind side. Once CRYSTAL PROPANIL is applied, it will not release fumes hazardous to nearby crops.

RICE INJURY: All leading commercial varieties of rice are exceptionally tolerant of CRYSTAL PROPANIL. A yellowing or leaf burn of rice may be noted after treatment, but new growth is normal. Under some conditions, severe leaf burn and partial killing of rice may occur. Growers are warned to use caution when applying CRYSTAL PROPANIL during extremely hot weather or to rice that may be in a weakened or sensitive condition from over-watering, soil salts, or other causes.

EFFECT ON OTHER SPECIES: Perennial species such as cattail Typha latifolia; bulrush Scirpus spp; nutgrass Cperus spp. (nut type); Johnsongrass Sorghum halepense; knotgrass Paspalum distichum (water bermuda grass); longtom Paspalum lividum which develop from well established roots, rhizomes, corms or nuts may be temporarily injured by CRYSTAL PROPANIL but usually recover. Several aquatic species may be injured by CRYSTAL PROPANIL but usually develop in rice fields after the normal time of treatment for barnyardgrass. These include: duck salad Heteranthera spp; Arrowhead (lilies) Sagittaria spp; redstem Ammannia coccinea; Sprangletop Leptochloa spp., and red rice. Oryza Sativa are not controlled with CRYSTAL PROPANIL.

LIMITATIONS AND TOLERANCES FOR: Crop—Rice Limitations—56 days or before tillering Tolerance—None *
*Recommended use does not result in residues at harvest. DO NOT RE-USE CONTAINER. DESTROY WHEN EMPTY EPA Reg. No. 6874-10

Manufactured for

CRYSTAL CHEMICAL COMPANY

1525 N. POST OAK RD. • HOUSTON, TEXAS 77055

EXHIBIT 1

WEEDS CONTROLLED

Barnyardgrass (Watergrass)
Echinochloa crusgalli* or *Echinochloa colonum

Alligator Weed
Alternanthera philoxeroides
Brachiaria
Brachiaria spp.
Crabgrass
Digitaria sanguinalis
Croton
Croton capitatus
Curly Indigo
Aeschynomene virginica
Foxtail
Setaria spp.
Goosegrass
Eleusine indica
Gulf Cockspur
Echinochloa crus-pavonis
Hoarahgrass
Fimbristylis miliacea
Mexican Weed
Caperonia palustris
Paragrass
Panicum purpurascens
Pigweed
Amaranthus retroflexus
Redweed (Teaweed)
Melochia corchorifolia
Sour Dock
Rumex crispus
Spurhead
Rhynchospora corniculata
Tall Indigo or Coffee Bean
Sesbania exaltata
Texas Millet
Panicum texanum
Wiregrass
Eleocharis spp.

WEEDS NOT CONTROLLED

Arrowhead
Sagittaria spp.
Bermudagrass
Cynodon dactylon
Cattail
Typha latifolia
Duckweed
Heteranthera spp.
Johnsongrass
Sorghum halepense
Nutgrass
Cyperus spp.
Red Rice
Oryza sativa
Sprangletop
Leptochloa spp.

GENERAL INFORMATION

CRYSTAL PROPANIL 4E is a post-emergence herbicide for the control of many grasses and broadleaf weeds in rice fields only. It may be applied by either ground or aerial spray equipment, after dilution and thorough agitation with water. CRYSTAL PROPANIL 4E is not a hormone-type herbicide, but kills susceptible plants by direct contact action. For this reason, thorough spray coverage of weeds to be killed is necessary for best results.

CRYSTAL PROPANIL 4E should be applied when weeds and grasses are small, (See Directions for Use). Use only on fields which have been drained of flood water.

Rice fields to be treated should be inspected frequently before the application of CRYSTAL PROPANIL 4E to insure that barnyard or watergrass is at the proper stage of growth (1 to 3 leaf stage with an occasional 4 leaf plant).

ATTENTION: Never apply CRYSTAL PROPANIL 4E except as recommended on this label because use in any other way may result in damage or injury to persons, animals, or crops, or other unintended consequences.

DO NOT APPLY CRYSTAL PROPANIL 4E WITHIN FOURTEEN DAYS before or after insecticide applications because serious damage to rice may occur.

Do not apply to any crops other than rice.

Before applying CRYSTAL PROPANIL 4E, make sure the spray equipment is properly calibrated to avoid over- or under-treatment.

Do not apply CRYSTAL PROPANIL 4E under wind conditions which will allow drift to adjacent susceptible crops such as beans, soybeans, cotton, safflower, cucurbits, vegetables, orchards and other sensitive crops. Wind velocity greater than 5 miles per hour will often cause applications to be streaked and give less than maximum herbicidal control.

Keep this container closed when not in use. Do not reuse for other purposes as its toxic contents cannot be entirely removed.

Do not reuse empty container. Destroy it by perforating or crushing. Bury or discard in a safe place.

This product is toxic to fish. Keep out of lakes, streams and ponds. Do not contaminate water by cleaning of equipment, or disposal of wastes.

DIRECTIONS FOR USE—RICE ONLY

Do not use until you have also read the entire label.

Rice fields should be well prepared and free of large clods to obtain uniform germination of grasses and weeds, and to insure uniform flood levels. If necessary, fields may be flushed prior to treatment to produce uniform grass germination. If fields are flushed prior to treatment, flush in sufficient time so that grass and rice are growing vigorously at time of treatment. Water should be drained from fields before spraying so that grasses and weeds are fully exposed to the spray.

CRYSTAL PROPANIL 4E acts only on grasses and weeds which have already germinated. Maximum action usually is not apparent until 3 to 5 days after application). To prevent more weeds from germinating after treatment, fields should be flooded within 24 hours after spraying, or as soon as possible after 24 hours. Flooding after spraying will improve the grass control after CRYSTAL PROPANIL 4E treatment. In cases where flooding of the field would not be complete within seven days or less after application of CRYSTAL PROPANIL 4E, it is best to treat a portion of the field, flood that treated portion, and then treat the remainder. This will help prevent reinfestation of weeds and grasses. Higher rates (4-6 quarts) may be necessary on the remainder since the grass will be more mature.

If the rice is too small to maintain a flood on the field, treatment should be delayed until the rice is large enough. The grass may then be large enough to require 4-6 quarts of CRYSTAL PROPANIL 4E.

Avoid treatment if rain threatens within 6-8 hours or if high winds may cause uneven application or drift.

In case of unseasonably cool weather, higher rates (4-6 quarts acre) of CRYSTAL PROPANIL 4E may be necessary. The number of leaves of barnyard or watergrass determines the time and amount of CRYSTAL PROPANIL 4E to spray, regardless of the size of the rice. THE GROWER SHOULD INSPECT FIELDS FREQUENTLY TO DETERMINE PROPER TIME OF APPLICATION. The ideal application time is when most barnyardgrass has one to three leaves, with only an occasional plant having four leaves. During drought conditions grasses may reach the three leaf stage while still quite short or stunted, so special attention to stage of growth is necessary in these situations to avoid grasses becoming too mature for best results.

Apply 3 quarts of CRYSTAL PROPANIL 4E per acre when most grass has reached the one to three leaf stage. Use 4 to 6 quarts of CRYSTAL PROPANIL 4E per acre if grasses are larger, with most in the four to six leaf stage. Mix CRYSTAL PROPANIL 4E thoroughly with water for spraying, using vigorous mechanical agitation. For AERIAL APPLICATION dilute the proper amount of CRYSTAL PROPANIL 4E with 10 to 12 gallons of water per acre. For GROUND EQUIPMENT dilute the proper amount of CRYSTAL PROPANIL 4E with 15 to 25 gallons of water per acre. Lesser amounts of water often give inadequate coverage and may cause poor results.

If fields cannot be completely drained so that all of the grass is exposed, a higher dosage of CRYSTAL PROPANIL 4E (4-6 quarts acre) must be used.

NOTICE—When CRYSTAL PROPANIL 4E is applied, especially after the fourth leaf stage of growth of the rice, under some conditions, visible leaf injury on rice may result. However, the rice plants quickly outgrow such injury when caused by the later applications.

USE IN CALIFORNIA ONLY—Where rice fields are not completely drained.

NOTE: Before using, read entire label.

To control watergrass, apply CRYSTAL PROPANIL 4E 30 to 45 days after planting, before rice is fully tillered, when watergrass extends 6 to 8 inches above water surface. If rice has a deep flood, water level may be lowered to 3-4 inches over highest part of field to expose 6-8 inches of watergrass. (When lowering water level, do so slowly to avoid pulling down rice plants). Use 4 quarts per acre if most grass has developed 3-5 leaves, use 6 quarts if most grass has 5-6 leaves, and use 6 quarts per acre if most grass has 7 or more leaves. Apply in no less than 10-12 gallons of water, using a medium-fine spray.

If higher water level is desired after treating, reflooding may be started 12 hours after treatment.

NOTICE

Use of this material other than in accordance with directions on this label may produce plant injury, excessive residues, or other undesirable results. Crystal Chemical Company makes no express or implied warranties other than specified on this label.

CRYSTAL PROPANIL 4E

For post-emergence control of Barnyardgrass and other weeds in Rice

ACTIVE INGREDIENT:	
3', 4'-Dichloropropionanilide	45.0%
INERT INGREDIENTS:	55.0%

*Contains 4 pounds of 3', 4'-dichloropropionanilide per gallon.

Use only according to these label instructions.

CAUTION: *KEEP OUT OF REACH OF CHILDREN.*

Harmful if swallowed or absorbed through skin. Causes severe eye irritation. May cause skin irritation. Avoid contact with eyes, skin or clothing. Avoid prolonged breathing of vapor or mist. Keep away from heat, sparks and open flame. In case of contact, flush skin or eyes with plenty of water for at least 15 minutes; for eyes, get medical attention. Do not store near food, fertilizer, seeds, insecticides or fungicides.

CRYSTAL CHEMICAL COMPANY
1525 N. Post Oak Road
Houston, Texas 77055

30 NET U.S. GALLONS

7 [198]

EXHIBIT 2

NET CONTENTS: GALLONS

EPA Reg. No. 6874-10

CONTROL NO. _____

PROPANEX

POST EMERGENCE GRASS AND WEED KILLER

Active Ingredient	
3', 4'-dichloropropionanilide*	35%
Inert Ingredient	65%
	100%

*Equal to 3 lbs. of the active ingredient per gallon.

WARNING: *KEEP OUT OF REACH OF CHILDREN.*

Avoid breathing spray mist. Harmful if swallowed, absorbed through the skin. Do not get in eyes or on skin or in clothing. In case of contact, flush skin and eyes with plenty of water; for eyes—get medical attention. Do not take internally. May cause skin irritation. Do not store near food or feed. Do not contaminate streams, lakes, or ponds with this material. Do not store at temperatures below 15° F.

Consult state agricultural experimental station or extension service weed specialists for further recommendations on dosage, timing, water management, and cultural practices to meet local conditions.

CRYSTAL CHEMICAL COMPANY
1525 N. Post Oak Road
Houston, Texas 77055

DO NOT REUSE CONTAINER. DESTROY WHEN EMPTY.

DIRECTIONS FOR USE: PROPANEX is a selective post-emergence herbicide for control of barnyard grass and certain other weeds in rice. PROPANEX contains 3 lbs. active ingredient per gallon and is mixed with water for spraying. To avoid injury to rice do not mix with insecticides or liquid fertilizer or apply them separately either before or after PROPANEX treatment, unless such treatments are recommended by State Agricultural Experiment Station or Extension Service Weed Specialist following thorough testing.

TIMING AND DOSAGE: Use PROPANEX at 1 to 2 gallons (3 to 6 lbs. active) per acre according to the stage and condition of growth of grass. Grasses and weeds should be succulent and growing actively when treated. Optimum temperatures are from 65° to 90° F. Do not use when daytime temperatures below 50° or above 100° F. are expected. The higher dosage is required for stunted, deep rooted grasses growing in very dry surface soil, and for large-tillering grass. Usually one application is sufficient. If retreatment is necessary apply as soon as need is evident. Use 1 gallon PROPANEX (3 lbs. active) per acre for actively growing grass in 1 to early 4-leaf stage with shallow roots.

Use 1½ to 1⅔ gallons PROPANEX (4 to 4½ lbs. active) per acre for actively growing grass in 4 to 6 leaf and early tillering stage, or for stunted 1 to 4 leaf grass with deeper roots growing in dry soil. Use 1½ to 2 gallons PROPANEX (4½ to 6 lbs. active) per acre for tillering grass, 6 to 12 inches tall, only in emergency conditions. Only partial control may be expected.

To avoid residues at harvest, do not apply after full tillering of rice or within 56 days before harvest. Do not exceed a total of 8 lbs. active per acre per season.

METHOD OF SEEDING: PROPANEX may be used on dry planted (drilled or broadcast) or on muddy or clear water planted rice. For best results, field should be uniformly level and have well prepared seedbeds free of large clods to encourage uniform and rapid emergence of rice, grass and weeds. Adequate inlets, drains and cross-levees should be provided to permit quick draining, flushing or flooding before and after treatment to meet the optimum water requirements for the rice crop and for optimum use of PROPANEX in grass control.

WATER MANAGEMENT BEFORE TREATMENT:

Dry Planting: Plant in a moist seedbed, or flush to germinate the rice.

Muddy Water Planting: The planting flood is usually drained 1 to 3 days after seeding.

Clear Water Planting: Planting flood may be deep or shallow but is lowered as soon as the rice is "pegged". Maintain a shallow flood or intermittent flushing until the rice is well rooted. Avoid deep flooding from time of pegging until treatment; this encourages tall, spindly rice which may lodge in the mud after draining.

In all methods of planting, flush the fields as often as needed to prevent drying and soil crusting and to aid the emergence of rice and grass. During periods of high temperature, drying winds and low rainfall, it is especially important to flush often enough to keep the grass growing actively and thus more susceptible to the optimum dosage of PROPANEX. All or most of the water should be off the field at the time of spraying to allow full coverage of the grasses and weeds.

Treat grassy and weedy fields with PROPANEX when a satisfactory stand of rice that tolerates flooding is established. Follow the recommendations according to the stage and condition of the growth of the grass as shown above under Timing and Dosage.

Water management after treatment: Treated fields should always be flooded before a second infestation of grass has a chance to develop beyond the one-leaf stage.

Start flowing in 12 to 24 hours in warm, sunny weather if treatment has been made on actively growing grass in moist soil. During cool, cloudy weather or if treatment is made on slow growing grass in dry soil, delay flooding until 2 to 5 days afterwards to allow maximum time for kill. Cover the grass completely and maintain the flood at least 2 inches deep on the highest parts of the field even though the rice is submerged temporarily. As the rice grows above the water, deepen the flood accordingly. In general, rice can be grown with shallower flooding after PROPANEX treatment than when water flooding after is used for grass control.

FERTILIZER: Fields to be treated with PROPANEX may be fertilized before or at planting time. Place nitrogenous fertilizer 2 to 4 inches deep to minimize loss during periods when the fields are drained. Fertilizer may also be applied just before flooding. Apply nitrogen at any appropriate time. Do not use PROPANEX fertilizer in combination application.

APPLICATION EQUIPMENT: Apply PROPANEX with aircraft or ground sprayers. Carefully calibrate and adjust equipment to give medium fine droplets in a uniform pattern that provides complete coverage. Flush sprayers with clear water after each day's use. Clean all equipment used for PROPANEX with a detergent rinse, followed by a clear water rinse, before and after spraying other materials or other crops such as cotton, soybeans, vegetables, fruits, etc. Applicators and flagmen should avoid contact with spray mist from PROPANEX or any pesticides and should wear protective clothing and goggles. Wash thoroughly after exposure.

AIRCRAFT: Fixed wing or helicopter agricultural aircraft equipped with well designed spray distribution systems that produce a uniform medium-fine droplet spray may be used for PROPANEX. Gravity flow fertilizer sprayers or venturi-type spreader-seeders should not be used. Apply PROPANEX in no less than 10 gallons total spray per acre with standard boom-nozzle or with "Swathmaster" sprayers. Somewhat higher gallonages are suggested for extra thick or tall grass. Five gallons per acre appear satisfactory with "Micronair Rotary Atomizer" sprayers. Swath width is governed by the design of the aircraft, its spray distribution system and its operation, and should be pre-determined for each unit. Generally, the optimum swath width should not exceed the wing span of the aircraft, and is frequently less. Swaths must be measured accurately for flagging. Excessively wide or narrow swaths result in streaking and uneven distribution.

GROUND SPRAYERS: Standard low pressure herbicide sprayers equipped with flat fan or boom-jet nozzles are satisfactory. Use nozzles which deliver a medium-fine droplet in 15 to 40 gallons total spray per acre at 40 to 60 psi and at ground speeds not in excess of 3 to 4 m.p.h. Because of the tractor levees in most rice fields, special care is needed to avoid skips and double spraying, and to avoid raising the boom too high so the spray fails to reach the weeds uniformly.

OPERATION CONDITIONS: Do not apply with aircraft when winds exceed 4 to 5 m.p.h. or with ground equipment with winds over 6 to 8 m.p.h. A cross-wind during spraying is desirable to equalize distribution. Fields may be treated when grass is either dry or wet with dew. Do not spray if rain threatens in 6 hours.

DRIFT HAZARD TO OTHER CROPS: PROPANEX injures most crops except cereal grains and perennial grasses. Avoid drift or accidental application from turning aircraft on cotton, soybeans, corn, safflower, seedling legumes, vegetables, orchards, vineyards, gardens, shrubs, and ornamentals. Do not spray within ½ mile of sensitive crops downwind with either air or ground equipment when winds reach maximum recommended velocity for application. Do not spray within 50 feet with aircraft, or within 10 feet with ground equipment of sensitive crops on the upwind side. Once PROPANEX is applied, it will not release fumes hazardous to nearby crops.

RICE INJURY: All leading commercial varieties of rice are exceptionally tolerant of PROPANEX. A yellowing or leaf burn of rice may be noted after treatment, but new growth is normal. Under some conditions, severe leaf burn and partial killing of rice may occur. Growers are warned to use caution when applying PROPANEX during extremely hot weather or to rice that may be in a weakened or sensitive condition from over-watering, soil salts, or other causes.

EFFECT ON OTHER SPECIES: Perennial species such as cattail Typha latifolia; bulrush Scirpus spp; nutgrass Cyperus spp. (nut type); Johnsongrass Sorghum halepense; knotgrass Paspalum distichum (water bermuda grass); longtom Paspalum lividum which develop from well established roots, rhizomes, corms or nuts may be temporarily injured by PROPANEX but usually recover. Several aquatic species may be injured by PROPANEX but usually develop in rice fields after the normal time of treatment for barnyardgrass. These include: duck salad Heteranthera spp; Arrowhead (lillies) Sagittaria spp; redstem Ammannia coccinea; Sprangletop Leptochloa spp., and red rice. Oryza Sativa are not controlled with PROPANEX.

LIMITATIONS AND TOLERANCES FOR:

Crop	Limitations	Tolerance
Rice	56 days or before tillering	None*

*Recommended use does not result in residues at harvest.

EXHIBIT 3

8 [1991]

SUPERNOX

POST EMERGENCE GRASS AND WEED KILLER

Active Ingredient	
2, 4 - dichlorophenoxyacetic*	25%
Inert Ingredient	75%
	100%

*Equal to 2 lbs. of the active ingredient per gallon.

WARNING: KEEP OUT OF REACH OF CHILDREN.

Avoid breathing spray mist. Wear hat or sunbonnet. Do not get spray on skin or on clothing. In case of contact, flush skin and eyes with plenty of water. See eyes — get medical attention. Do not take internally. May cause skin irritation. Do not place near food or feed. Do not contaminate streams, lakes, or ponds with this material. Do not store at temperatures below 15 F.

CONSULT YOUR AGRICULTURAL EXPERIMENTAL STATION OR EXTENSION SERVICE WITH SPECIFICS FOR PARTICULAR RECOMMENDATIONS TO INCLUDE, TIMING, METHOD AND AMOUNT, AND CULTURAL PRACTICES TO MEET LOCAL CONDITIONS.

NOTICE: Seller warrants that the product conforms to the chemical description and is reasonably fit for the purposes stated on the label when used in accordance with the directions under normal conditions of use, but neither this warranty nor any other warranty of merchantability or fitness for a particular purpose expressed or implied, apply to the use, storage or handling of this product contrary to label instructions, or under abnormal circumstances, or under conditions not reasonably foreseeable to seller, and buyer assumes the risk of any such use. These risks include, but are not limited to damage to plants, crops and animals to which the material is applied, failure to control pests, damage caused by drift to other plants or crops, and personal injury. USDA Reg. No. 6564-11

NET CONTENTS: 30 GALLONS

Dawson Chemical Company
Houston, Texas

EXHIBIT 4

HELENA

BRAND

PROPANIL-3

CAUTION KEEP OUT OF REACH OF CHILDREN.
SEE OTHER CAUTION STATEMENTS ON SIDE PANEL.

ACTIVE INGREDIENTS	
3', 4'-Dichloropropionanilide*	35%
INERT INGREDIENTS	65%
TOTAL	100%

*Equal to 3 lbs. of the active ingredient per gallon.

MANUFACTURED BY
HELENA CHEMICAL COMPANY
WEST HELENA, ARK. — TAMPA, FLA. — LUBBOCK, TEX.

READ ENTIRE LABEL BEFORE USING

CAUTION

Avoid breathing spray mist. Do not get in eyes or on skin. In case of contact, flush skin and eyes with plenty of water; for eyes get medical attention. Harmful if swallowed. Do not store near feed or foodstuffs. To protect fish and wildlife, do not contaminate streams, lakes or ponds with this material. Do not store at temperatures below 15° f.

KEEP OUT OF REACH OF CHILDREN

DIRECTIONS FOR USE

(Southern United States Only)

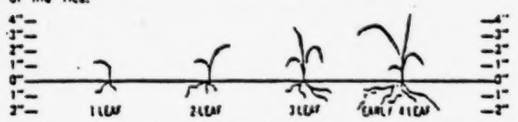
RICE—PROPANIL - 3 is a selective post-emergence herbicide for control barnyardgrass and related grass species and certain other weeds in rice. Mix only with water and apply as a spray. Do not add oils, adjuvants, liquid fertilizer, or certain insecticides (see compatibility below), to do so may cause injury to rice.

PROPANIL - 3, as most any herbicide, is more effective on succulent, actively growing grass and weeds. For best results apply PROPANIL - 3 when all conditions are as near optimum as possible. Read the directions completely and follow carefully.

TIMING AND DOSAGE—Treat grassy and weedy fields when a satisfactory stand of rice that will tolerate flooding is established. Use PROPANIL - 3 at 1 to 1-2/3 gallons (3 to 5 lbs. active) per acre depending on the stage and condition of growth of grass and weeds and according to the prevailing climatic conditions.

A dosage range is recommended for each stage or size of grass. The lower rates are suggested for ideal conditions when soil moisture is adequate and the grass is growing actively, daily maximum temperatures reach 75° F or higher, humidity is medium to high, and when the grass stand is only moderately thick. Use the higher suggested rates when the grass is retarded or stunted due to dry soil, cool weather, or prolonged cloudiness, the humidity is very low, the daily maximum temperatures range below 75° F, the grass stand is very thick, and when application conditions are not entirely satisfactory.

Use 1-1/3 gallons PROPANIL - 3 (3 to 4 lbs active) per acre on barnyardgrass in the one to early four leaf stage, and for most broadleaf and aquatic weeds. Generally this will be 15 to 25 days after planting of the rice.



Use 1-1/3 to 1-2/3 gallons PROPANIL - 3 (4 to 5 lbs. active) per acre on barnyardgrass in the four to five leaf and early tillering stage. Generally this will be 20 to 30 days after planting of the rice.

HUMIDITY—Maximum uptake of PROPANIL - 3 occurs during periods of high humidity and may virtually cease when humidity is very low. A significant amount of spray may evaporate in the air during application at low humidity. Increase the total spray gallonage per acre when applications must be made at low to moderate humidity. Do not apply PROPANIL - 3 at any time when the humidity is extremely low.

TIME OF SPRAYING—Successful applications of PROPANIL - 3 have been made at any time of the day when wind and atmospheric conditions have remained favorable. However, early morning or occasionally late evening application is usually preferable, when winds are generally at a lower velocity, the air is less turbulent and the humidity is higher. If spraying in the late morning or afternoon is necessary when conditions are not entirely favorable, increased gallonage, higher dosage and compensating adjustments in sprayer operation are necessary.

COMPATIBILITY WITH INSECTICIDES—Severe injury or death of rice plants may result from combination or separate sprays of PROPANIL - 3 and certain insecticides. Do not combine PROPANIL - 3 with Sevin (carbaryl) or any organic phosphate insecticides such as parathion, methyl parathion, Guthion, malathion, Systox, EPN, Phosphamidon, etc. Do not apply any of the above insecticides to rice fields within 14 days before or after PROPANIL - 3. Do not use systemic phosphate insecticides as Disyston, Thimet, etc. on rice fields to be treated with PROPANIL - 3.

Most chlorinated hydrocarbon insecticides such as DDT, toxaphene, aldrin, dieldrin, endrin and heptachlor may be used with PROPANIL 3 in separate sprays or as seed treatments. Combination sprays may cause some temporary tip burn.

Do not mix PROPANIL - 3 with liquid fertilizers for combination application.

APPLICATION

EQUIPMENT—Use aerial or ground sprayers. Flush with clear water after each day's use. Clean all equipment used for PROPANIL 3 with a detergent wash followed by a water rinse, before and after spraying other pesticides or other crops. Applicators and flagmen should avoid contact with spray mist from PROPANIL 3 or any pesticides and should wear protective clothing and goggles. Wash thoroughly after exposure.

AIRCRAFT—Fixed wing aircraft or helicopters should have well designed spray systems that produce a uniform pattern of medium fine spray droplets. Apply PROPANIL - 3 on small grass in no less than 10 gallons per acre with boom-nozzle or "Swathmaster" sprayers. Increase to 12 to 15 gallons per acre for larger or thicker grass or during periods of low humidity. Somewhat lower gallonage rates are possible with the "Micronair Rotary Atomiser" sprayer.

Swath width varies with the aircraft but should be uniform without streaks or skips. Measure swaths accurately for flagging.

GROUND SPRAYERS—Use standard low pressure herbicide sprayers equipped with boom and flat fan nozzles. Use nozzle sizes that deliver a medium fine droplet in 15 to 40 gallons total spray per acre at 40 to 50 p.s.i. and at ground speeds not in excess of 3 to 4 m.p.h. Avoid raising boom too high. Spray patterns should meet uniformly.

TO AVOID RESIDUES AT HARVEST—DO NO APPLY AFTER THE MID-TILLERING STAGE OF RICE OR LATER THAN THE DAYS AFTER PLANTING SPECIFIED BELOW ACCORDING TO EACH VARIETY OR MATURITY CLASSIFICATION OF THE RICE.

NET CONTENTS **U. S. GALLONS BY WEIGHT**

Rice Maturity Class & Typical Variety	Average Days to Mid-tillering & Date of Last Spray	Max. Single Dosage	Total Dosage Per Season
Early-Belle Patna	28	4.0 lb. active	5 lb. active
Mid-season-NATO	35	4.5 lb. active	5 lb. active
Late-Blue Bonnet	42	5.0 lb. active	6 lb. active

Usually one application is sufficient. If retreatment is necessary because of application error or unfavorable weather, apply as soon as possible. Do not spray later than the mid-tillering date for each variety or exceed the total active PROPANIL - 3 per acre shown in the chart above.

EFFECT OF CULTURAL PRACTICES AND CLIMATIC CONDITIONS

FIELD AND SEEDBED PREPARATION—Fields should be accurately leveled and contoured and have well prepared seedbeds, free of large clods. This encourages uniform and rapid emergence of rice, grass and weeds, and permits better timing of sprays.

WATER MANAGEMENT BEFORE TREATMENT—Drained or dry planted fields should be flushed as often as needed to prevent drying and crusting to encourage a uniform emergence and growth of grass, weeds and rice. Flushing is especially important during periods of low rainfall, drying winds, or high temperature. Flushing a dry field a few days before treatment stimulates the active growth of grass and weeds and makes them more susceptible to PROPANIL - 3. If the field cannot be flushed and the grass has been growing slowly, the higher dosage rate is recommended. Most of the standing water should be off the field at the time of spraying to give full exposure of grass and weeds.

WATER MANAGEMENT AFTER TREATING—Treated fields should always be flooded before a second infestation of grass has a chance to develop beyond the one leaf stage. Flooding may be started in 12 to 24 hours if treatment has been made on actively growing grass under ideal conditions. If the treatment was made on slow growing grass during dry, cool, or cloudy weather, delay flooding until 2 to 5 days afterwards to allow maximum time for absorption and translocation.

Do not flush after treatment but cover the grass immediately and completely. Hold flood at desired level. In general, rice can be grown with shallower flooding after PROPANIL - 3 treatment than when water alone is used for grass control.

TEMPERATURE—The activity of PROPANIL - 3 is affected by the daily maximum temperatures a few days before and after treatment. Response improves as daily maximum temperatures increase above 75° F. Response decreases as the daily maximum declines below 75° F. Very poor control may result during periods of extremely low or extremely high temperature. Do not apply PROPANIL - 3 when maximum temperatures have been or are expected to stay below 55° F or to go above 100° F. Low temperature at the time of actual application is not so important as long as it warms up later during the day.

OPERATING CONDITIONS—Steady winds 2 to 6 m.p.h. are preferred, but should not exceed 10 to 12 m.p.h. for aircraft or 6 to 8 m.p.h. for ground equipment. A crosswind is desirable for aerial application. Fields may be treated when grass is either dry or wet with dew; do not spray if rain threatens within 6 hours.

Do not spray when humidity is extremely low, when winds are gusty, when the atmosphere is turbulent, or during periods of temperature inversions or rising thermals.

DRIFT HAZARD TO OTHER CROPS—PROPANIL - 3 injures most crops except cereal grains and perennial grasses. Avoid drift or accidental application from turning aircraft on cotton, soybeans, corn, safflower, seedling legumes, vegetables, orchards, vineyards, gardens, shrubs or ornamentals. Once PROPANIL - 3 is applied it does not release fumes hazardous to nearby crops.

RICE INJURY—All leading commercial varieties of rice are exceptionally tolerant of PROPANIL - 3. A yellowing or tip burn of rice may be noted after treatment, but new growth is normal. Severe leaf burn and stunting of rice may occur when it is weakened by extremely hot weather, soil salts, over-watering, or other causes. Growers are cautioned not to spray at such times.

GRASSES AND WEEDS CONTROLLED WITH PROPANIL - 3

Grasses—PROPANIL - 3 is used primarily for the control of barnyardgrass also known as millet, watergrass, purple or blue stem, or Bearner or jungle rice also known as little barnyardgrass or short millet; cockspur; crabgrass; Texas millet, or Colorado grass; paragrass, goosegrass, and Brachiaria.

Broadleaf Weeds—Several broadleaf weeds, commonly pests in rice fields, are also controlled with PROPANIL - 3. These include alligatorweed; curly indigo (coffeeweed, bashfulweed); Mexicanweed (bur-weed, Texasweed); redweed (teaweed); redroot pigweed; tall indigo (coffeebean, sennabean); water plantain, and woolly croton (goatweed).

Sedges—Several troublesome sedges are also controlled with PROPANIL - 3. These include hoorahgrass, jointed sedge; nutsedge or coco; spike rush and spearhead (tadpole sedge, horned beakrush).

Effect on Other Species—Perennial species such as cattail, bulrush, paragrass, Johnsongrass, knotgrass, longtom, and others, which develop from well established roots, rhizomes, or corms may be temporarily injured by PROPANIL - 3 but usually recover. Such aquatic species as alligatorweed, Arrowhead lilies and redstem may be injured by PROPANIL - 3 but usually develop in Southern rice fields after the normal time of treatment for barnyardgrass.

Sprangletop and red rice are not controlled with PROPANIL - 3.

Consult State Agricultural Experimental Station or Extension Service Weed Specialists for further recommendations on dosage, timing, water management, and cultural practices to meet local conditions.

WARRANTY NOTICE

Helena Chemical Company warrants that this material has been labeled as required under State and Federal Laws and that they conform to the label description. We make no further warranty expressed or implied.

USDA REG. NO. 5905—68

HELENA

BRAND

PROPANIL 4

CAUTION: KEEP OUT OF REACH OF CHILDREN
SEE SIDE PANEL FOR ADDITIONAL CAUTIONS

SELECTIVE HERBICIDE (4 LBS. ACTIVE* PER GALLON)
FOR POST-EMERGENCE CONTROL OF BARNYARD GRASS AND
OTHER WEEDS IN RICE.

ACTIVE INGREDIENTS:	
*3',4'-Dichloropropionanilide	43.48%
INERT INGREDIENTS	56.52%

*Contains 4 pounds of 3',4' dichloropropionanilide per gallon.

READ "WARNING NOTICE" BEFORE BUYING OR USING.
IF NOTICE TERMS ARE NOT ACCEPTABLE, RETURN AT ONCE UNOPENED.

* Use only according to label instructions.

MANUFACTURED BY
HELENA CHEMICAL COMPANY
West Helena, Ark. — Tampa, Fla. — Lubbock, Texas
Des Moines, Iowa — West Columbia, South Carolina

CAUTION

HARMFUL IF SWALLOWED OR ABSORBED THROUGH SKIN.
CAUSES EYE IRRITATION.
MAY CAUSE SKIN IRRITATION.

Avoid contact with eyes, skin or clothing.
Avoid breathing spray mist.
Keep away from heat, sparks and open flame.
In case of contact: flush skin or eyes with plenty of water for at least 15 minutes; get medical attention.
Do not store near food, fertilizer, seed, insecticides or fungicides.

This product is toxic to fish. Keep out of lakes, streams, or ponds. Do not apply when weather conditions favor drift from areas treated. Do not contaminate water by cleaning of equipment, or disposal of wastes.

GENERAL INFORMATION

HELENA BRAND PROPANIL 4 is a post-emergence herbicide for the control of many grasses and broadleaf weeds in rice fields only. It may be applied by either ground or aerial spray equipment, after dilution and thorough agitation with water. HELENA BRAND PROPANIL 4 is not a hormone-type herbicide but kills susceptible plants by direct contact action. For this reason, thorough spray coverage of weeds to be killed is necessary for best results.

HELENA BRAND PROPANIL 4 should be applied when weeds and grasses are small. (See Directions for Use). Use only on fields which have been drained of flood water.

Rice fields to be treated should be inspected frequently before the application of HELENA BRAND PROPANIL 4 to insure that barnyard or water grass is at the proper stage of growth (1-3 leaf stage with an occasional 4 leaf plant).

WARNING: Never apply HELENA BRAND PROPANIL 4 except as recommended on this label because use in any other way may result in damage or injury to persons, animals, or crops, or other unintended consequences.

DO NOT APPLY HELENA BRAND PROPANIL 4 WITH FOURTEEN DAYS before or after insecticide applications because serious damage to rice may occur.

Do not apply to any crops other than rice.

Before applying HELENA BRAND PROPANIL 4, make sure the spray equipment is properly calibrated to avoid over-or under-treatment.

Do not apply HELENA BRAND PROPANIL 4 under wind conditions which will allow drift to adjacent susceptible crops such as beans, soybeans, cotton, safflower, cucurbits, vegetables, orchards and other sensitive crops. Wind velocity greater than 5 miles per hour will often cause applications to be streaked and give less than maximum herbicidal control.

Keep this container closed when not in use. Do not re-use for other purposes as its toxic contents cannot be entirely removed.

WEEDS CONTROLLED

BARNYARD GRASS (WATERGRASS). Echinochloa crusgalli or Echinochola colonum

ALLIGATOR WEED. Alternanthera philoxeroides—BRACHIARIS. Brachiaria spp. — CRABGRASS. Digitaria sanguinalis — CROTON Croton capitatus — CURLY INDIGO. Aeschynomene virginica — FOXTAIL. setaria spp. — GOOSEGRASS. Eleusine indica — GULF COCKSPUR. Echinochloa crus pavonis — HOORAH GRASS. Fimbristylis miliacea — MEXICAN WEED. Caperonia palustris — PARAGRASS. Panicum purpurascens — PIGWEED. Amaranthus retroflexus — RED WEED (TEAWEED). Melochia corchorifolia — SOUR DOCK. Rumex crispus — SPEARHEAD. Rhynchospora cornuculata — TAIL INDIGO or COFFEE BEAN. Sesbania exaltata — TEXAS MILLET. Panicum texanum — WIREGRASS. Eleocharis spp.

WEEDS NOT CONTROLLED

ARROWHEAD. Sagittaria spp. — BERMUDA. Cynodon dactylon — CATTAIL. Typha latifolia — DUCK SALAD. Heteranthera spp. — JOHNSON GRASS. Sorghum halepense — NUT GRASS. Cyperus spp. — RED RICE. Oryza sativa - SPRANGLETOP. Leptochloa spp.

DIRECTIONS FOR USE — RICE ONLY

Do not use until you have also read the WARNING NOTICE as well as the DIRECTIONS FOR USE on this label.

DO NOT USE, POUR, SPILL OR STORE NEAR HEAT OR OPEN FLAME.

NET CONTENTS U.S. GALLONS

Rice fields should be well prepared and free of large clods to obtain uniform germination of grass and weeds, and to insure uniform flood levels. If necessary, fields may be flushed prior to treatment to produce uniform grass germination. If fields are flushed prior to treatment, flush in sufficient time so that grass and rice are growing vigorously at time of treatment. Water should be drained from fields before spraying so that grasses and weeds are fully exposed to the spray.

HELENA BRAND PROPANIL 4 acts only on grasses and weeds which have already germinated. (Maximum action usually is not apparent until 3 to 5 days after application.) To prevent more weeds from germinating after treatment, fields should be flooded within 24 hours after spraying or as soon as possible after 24 hours. Flooding after spraying will improve the grass after HELENA BRAND PROPANIL 4 treatment.
In cases where flooding of the field would not be completed within seven days or less after application of HELENA BRAND PROPANIL 4, it is best to treat a portion of the field, flood that treated portion and then treat the remainder. This will help to prevent reinfestation of weeds and grasses. Higher rates (4-6 quarts) may be necessary on the remainder since the grass will be more mature.

If the rice is too small to maintain a flood on the field, treatment should be delayed until the rice is large enough. The grass may then be large enough to require 4-6 quarts of HELENA BRAND PROPANIL 4.

Avoid treatment if rain threatens within 6-8 hours or if high winds may cause uneven application or drift.

In case of unseasonably cool weather, higher rates (4-6 quarts/acre) of HELENA BRAND PROPANIL 4 may be necessary.
The number of leaves of barnyard or water grass determines the time and amount of HELENA BRAND PROPANIL 4 to spray, regardless of the size of the rice but before rice in full tiller stage (50 days before harvest).

THE GROWER SHOULD INSPECT FIELDS FREQUENTLY TO DETERMINE PROPER TIME OF APPLICATION. The ideal application time is when most barnyard grass has one to three leaves with only an occasional plant having four leaves. During drought conditions grasses may reach the three leaf stage while still quite short or stunted, so special attention to stage of growth is necessary in these instances to avoid grasses becoming too mature for best results.

Apply 3 quarts of HELENA BRAND PROPANIL 4 per acre when most grass has reached the one to three leaf stage. Use 4 to 6 quarts of HELENA BRAND PROPANIL 4 per acre if grasses are larger, with most in the four to six leaf stage. Mix HELENA BRAND PROPANIL 4 thoroughly with water for spraying, using vigorous mechanical agitation. FOR AERIAL APPLICATION, dilute the proper amount of HELENA BRAND PROPANIL 4 with 10 to 12 gallons of water per acre. Do not exceed 8 pounds per acre per season.

For GROUND APPLICATION EQUIPMENT, dilute the proper amount of HELENA BRAND PROPANIL 4 with 15 to 25 gallons of water per acre.

Lower amounts of water often give inadequate coverage and may cause poor results.

If fields cannot be completely drained so that all of the grass is exposed, a higher dosage of HELENA BRAND PROPANIL 4 (4-6 quarts/acre) must be used.

NOTICE: When HELENA BRAND PROPANIL 4 is applied, especially after the fourth leaf stage of growth of rice, under some conditions, visible leaf injury on rice may result. However, the rice plants quickly outgrow such injury when caused by the later applications.

USE IN CALIFORNIA ONLY — Where rice fields are not completely drained.

NOTE: Before using, read entire label, including WARNING.

To control watergrass, apply HELENA BRAND PROPANIL 4 30 to 45 days after planting, before rice is fully tillered, when watergrass extends 6-8 inches above water surface. If rice has a deep flood, water level may be lowered to 1-4 inches over highest part of field to expose 6-8 inches of watergrass. (When lowering water level, do so slowly to avoid pulling down rice plants). Use 4 quarts per acre if most grass has 3-5 leaves, use 5 quarts if most grass has 5-6 leaves, and use 6 quarts per acre if most grass has 7 or more leaves. Apply in no less than 10-12 gallons of water, using a medium-fine spray.

If higher water level is desired after treating, re-flooding may be started 12 hours after treatment.

NOTICE

Helena Chemical Company warrants that this material conforms to the chemical description on the label and is reasonably fit for the purposes referred to in the Directions for Use and Conditions of Sale, subject to the inherent risks referred to therein. Helena Chemical Company makes no other express or implied warranty, including any other express or implied warranty of FITNESS or of MERCHANTABILITY, and no agent of Helena Chemical Company is authorized to do so except in writing with a specific reference to this warranty. Any damages arising from a breach of this warranty shall be limited to direct damages and not include consequential commercial damages such as loss of profit or value, etc.

DO NOT RE-USE THIS CONTAINER FOR ANY PURPOSE

Supreme Court, U.S.
FILED
NOV 21 1979
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

October Term, 1979.

No. 79-669.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY and HELENA CHEMICAL COMPANY,

Petitioners,

v.

ROHM AND HAAS COMPANY,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit.

BRIEF OF RESPONDENT IN OPPOSITION.

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IN THE

Supreme Court of the United States

October Term, 1979

No. 79-669

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY and HELENA CHEMICAL COMPANY,

Petitioners

v.

ROHM AND HAAS COMPANY,

Respondent

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

BRIEF FOR THE RESPONDENT IN OPPOSITION.

OPINIONS BELOW.

The opinion of the district court on cross-motions for summary judgment (A. 49-90) is reported at 191 USPQ 691. The opinion of the Fifth Circuit Court of Appeals (A. 1-48) is reported at 599 F. 2d 685.

JURISDICTION.

The opinion and judgment below were entered on July 30, 1979. The petition for a writ of certiorari was filed on October 24, 1979. The jurisdiction of this Court is invoked under 28 U. S. C. § 1254(1).

STATUTES INVOLVED.

Defendants' petition involves the construction of certain provisions of the 1952 Patent Act relative to contributory infringement and patent misuse, 35 U. S. C. § 271:

> Section 271. Infringement of patent
>
> (a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.
>
> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> (c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.
>
> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

QUESTION PRESENTED.

Should this Court grant a petition for certiorari to review a decision in which the Court of Appeals, on cross-motions for summary judgment, correctly construed 35 U. S. C. § 271(c) and (d) in a manner not in conflict with any decision of this Court or any other court of appeals, holding that respondent did not misuse its method patent by selling to the public the active ingredient thereof which had no use except in the patented method, and by enforcing the patent in this action?

STATEMENT.

A. Summary of the Proceedings.

Rohm and Haas' amended complaint charged defendants, petitioners herein, with contributorily infringing and actively inducing their customers to infringe United States Patent No. 3,816,092 (hereinafter the "Wilson patent"). This patent describes and claims a method of applying a chemical compound, 3, 4-dichloropropionanilide (hereinafter "propanil"), to weeds and established crops such as rice so as to inhibit selectively the growth of the weeds without adversely affecting the crop. Propanil itself is not patented.

Rohm and Haas manufactures propanil and sells it in containers bearing instructions for performing the patented process. By operation of law, purchasers from Rohm and Haas thus receive implied licenses to use the purchased propanil in the patented method. Rohm and Haas has not granted express licenses.

Petitioners sold propanil for herbicidal use on rice crops while the Wilson patent application was pending but before its issuance on June 11, 1974. Thereafter, as held by the Court of Appeals, "they continued to sell pro-

panil, knowing of the patent, and their customers have directly infringed the patent by following the method described on defendants' containers of propanil" (A. 5).[1] Propanil is not a staple article or commodity of commerce, and has no substantial noninfringing use (A. 5).

The United States District Court for the Southern District of Texas granted petitioners' motion for summary judgment based on patent misuse, concluding that 35 U. S. C. § 271(d) does not protect Rohm and Haas from misuse charges. The District Court also denied respondent Rohm and Haas' motion for summary judgment that it had not misused the patent.

The Court of Appeals reversed, holding that as a matter of law under § 271(d) Rohm and Haas did not commit patent misuse. It held that a patent owner who markets an unpatented, nonstaple product whose only commercial use infringes the patent is not guilty of patent misuse for declining to license other manufacturers to sell the nonstaple product for use under the patent. The Court of Appeals rejected the argument that such a patent owner must engage in compulsory licensing of other manufacturers in order to avoid a charge of patent misuse (A. 43-44), and it remanded the case for proceedings on other issues and for trial if necessary.

B. Rohm and Haas' Invention and Activities in the Sale of Propanil.

In accordance with the Wilson patent, the uniquely acting compound propanil may be applied to both the crop and the weeds, for it is a selective (destroys weeds without adverse effect on crops), post-emergence (applied to plants after they have emerged from the soil) herbicide.

1. "A" followed by a number indicates a page in petitioners' appendix.

This chemical is the essential ingredient of the patented method. Rohm and Haas' invention virtually eliminates the need for hand weeding and enables the productive use of the chemical propanil that was formerly a mere laboratory curiosity with no practical use whatever.

Rohm and Haas makes and sells propanil with container instructions to use the propanil in carrying out the steps of the Wilson patent. None of the defendants purchases propanil from Rohm and Haas and each has requested an express license under the Wilson patent. To date, Rohm and Haas has not offered or granted an express license to anyone. Rohm and Haas has never received any payment for propanil other than the purchase price from its customers who employ the Wilson patent method to control weeds in rice crops (A. 53).

C. Defendants' Activities in the Sale of Propanil.

Defendant-petitioners, both before and after the issuance of the Wilson patent, sold propanil made by themselves or third parties and they continue to sell it for a single use—to control weeds selectively in rice crops (A. 5, 52-53). Defendants' propanil is sold in containers bearing labels which recommend only the methods of use described in the Wilson patent claims. When defendants sell propanil, they know that their customers will carry out the methods of use described on their labels and thereby directly infringe the Wilson patent (A. 5, 52-53).

D. Propanil Is an Unpatented Nonstaple Article of Commerce.

As defined by the Court below, "staple" means a commodity or product with substantial uses apart from the patented invention, and "nonstaple" denotes a product lacking substantial uses other than infringing uses (A. 5-6).

Petitioners concede throughout their petition that propanil is a nonstaple, e.g. pages 2 and 6.

Rohm and Haas' patented discovery created the first and even today the only practical use of propanil.

While the Wilson patent application was involved in interference with Monsanto Company (ultimately resolved in favor of Rohm and Haas), a continuation of the interference application issued to Monsanto as United States Patent 3,382,280 claiming the chemical compound propanil *per se*. This Monsanto patent was held invalid in litigation with Rohm and Haas *inter alia* because, as a chemical compound, propanil was described in or taught by the prior art. *Monsanto Company v. Rohm and Haas Company*, 312 F. Supp. 778 (E. D. Pa. 1970), aff'd 456 F. 2d 592 (3rd Cir.), *cert. den.* 407 U. S. 934 (1972).[2]

Propanil was found by the Court in the *Monsanto* case to be implicitly described by publications dated as early as 1902. In the more than half century which followed, there was no marketing or utilization of propanil and no benefit to mankind from it.

2. That court found, however, that the use of propanil as a selective, post-emergence herbicide "was not revealed or in any way suggested in the prior art" (312 F. Supp. 801, finding 49).

SUMMARY OF ARGUMENT.

Review on writ of certiorari is not warranted. The Court of Appeals applied traditional tests of statutory construction, including both a scholarly exposition of court decisions leading up to the 1952 statute and a thorough analysis of the legislative history underlying the passage of § 271(c) and (d) for the express purpose of clarifying prior law. The petition for certiorari fails to establish either a conflict with another court of appeals on the same matter, a conflict with applicable decisions of this Court, or any other ground of such compelling importance that review on certiorari should be undertaken. Supreme Court Rule 19(1); *Ex parte Lau Ow Bew*, 141 U. S. 583, 587 (1891); *American Construction Co. v. Jacksonville T. & K. W. Ry. Co.*, 148 U. S. 372, 383 (1893).

The Court of Appeals concluded that only two prior opinions of this Court, the *Aro* opinions,[3] have dealt directly with sections 271(c) and (d) since their enactment, and it correctly recognized these decisions "as not controlling the result of our case" (A. 47). With reference to other decisions of this Court relied on by petitioners, the Court of Appeals correctly pointed out that they are in a "context far afield", stating (A. 47-48):

> "It is true that these cases contain ringing endorsements of patent misuse theory concerning the proper scope of a patent. However, we decline to rely on their general statements, made in context far afield from a patentee's effort economically to market his invention by sale of its unique, nonstaple elements to reach a result contrary to one we see so clearly in the statutory words and its legislative history."

3. *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 365 U. S. 336 (1961) (Aro I), and *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U. S. 476 (1964) (Aro II). These opinions are discussed more fully hereinafter.

ARGUMENT.

I. The Court of Appeals Applied Correct and Traditional Tests of Statutory Construction to the Applicable Provisions of the 1952 Patent Act.

The Circuit Court correctly held that under the 1952 Patent Act, Rohm and Haas is not guilty of misuse for selling an unpatented, nonstaple product to customers who, *by operation of law,* receive an implied license to use the product in practicing the patented method.[4] This inevitable operation of law, which Rohm and Haas cannot avoid, does not constitute "tying", nor is it "tying" merely because Rohm and Haas is enabled to sell propanil by reason of having invented the only successful and patented use for it.

The Court of Appeals also correctly held that neither the 1952 Act nor any other law requires Rohm and Haas to engage in compulsory licensing of other manufacturers in order to avoid the penalty of patent misuse (A. 43-44).

The legislative history of the statute and the historical setting framed by prior decisions of this Court demonstrate that there is no reason to grant certiorari in this case.

A. On the Very Face of the Statute Rohm and Haas' Activities Are Within the Statutory Exceptions to the Misuse Doctrine.

The 1952 Patent Act, an act "to revise and codify the laws", defines patent infringement in 35 U. S. C. § 271(a), and provides in subsection (b) that those persons who *actively induce infringement* shall be liable as infringers. Subsection (c) of 271 imposes liability for *contributory infringement* on those who sell a "component of . . . a

4. The implied license doctrine is stated by this Court in *Adams v. Burks,* 84 U. S. (17 Wall.) 453 (1873); and in *Aro II, supra.*

patented process . . . knowing the same to be especially made or especially adapted for use in an infringement of such patent", provided the component constitutes "a material part of the invention" and is "not a staple article or commodity of commerce suitable for substantial noninfringing use." The petitioners' sales fall within the explicit prohibitions of both 271(b), active inducement of infringement, and 271(c), contributory infringement.

Subsection 271(d), under construction in this case, provides that a patent owner will not be deemed guilty of patent "misuse or illegal extension of the patent right" for doing one or more of three specific acts, each of which relates to "contributory infringement":

> "No patent owner . . . shall be . . . deemed guilty of misuse . . . by reason of his having . . .
>
> "(1) derived revenue from acts which if performed by another without his consent would constitute *contributory* infringement of the patent;
>
> "(2) licensed or authorized another to perform acts which if performed without his consent would constitute *contributory* infringement of the patent;
>
> "(3) sought to enforce his patent rights against infringement or *contributory* infringement." [5]

Thus, § 271(d) specifically incorporates the definition of "contributory infringement" in enumerating the circumstances in which patent misuse shall not apply, and "contributory infringement" as defined in 271(c) refers to the sale of a nonstaple article such as involved here. The Court of Appeals was correct in so linking subsections (c)

5. Throughout this brief, emphasis has been added in all quotations unless otherwise indicated.

and (d) (A. 40-41), and the District Court proceeded on a wrong premise when it erroneously concluded (A. 86): "Nowhere in the language of § 271(d) has Congress limited or otherwise defined patent misuse by reference to the staple or nonstaple nature of an unpatented component." A basic rule of statutory construction—ignored by the District Court but followed by the Court of Appeals—requires that the various portions of a statute should be read together, particularly where one section defines terms used in the other, *Saxon v. Georgia Association of Independent Insurance Agents*, 399 F. 2d 1010, 1013 (5th Cir. 1968); *American Standard, Inc. v. Crane Co.*, 510 F. 2d 1043 (2d Cir. 1974), *cert. den.* 421 U. S. 1000 (1975); *Sampsell v. Straub*, 194 F. 2d 228 (9th Cir. 1951), *cert. den.* 343 U. S. 927 (1952). The draftsman of § 271 intended that (c) and (d) be read together (A. 127, 143), and the Court of Appeals so found (A. 41).

On the very face of the statute, Rohm and Haas has done only that which § 271(d) says is not a ". . . misuse or illegal extension of the patent right . . ."

It has "derived revenue from acts which if performed by another without [its] consent would constitute contributory infringement of the [Wilson] patent" (§ 271 (d)(1)), that is, Rohm and Haas has sold propanil for weed control in rice. Sale of propanil by another would constitute contributory infringement because propanil is not a "staple article or commodity of commerce suitable for substantial noninfringing use" and is used by purchasers only in methods embraced by the Wilson patent claims. As the sole active ingredient applied to both weeds and crops in the patented method, propanil is a "material part of the [Wilson] invention" and in view of its unique post-emergence, selective herbicidal activity, it is "especially made or especially adapted" for use in the methods claimed in the Wilson patent. Rohm and Haas

as the patent owner derives revenue from such sales and this conduct, by the express mandate of § 271(d)(1), does not constitute "misuse or illegal extension of the patent right."

Rohm and Haas has also impliedly "licensed or authorized another to perform acts which if performed without [its] consent would constitute contributory infringement of the [Wilson] patent" (§ 271(d)(2)). By operation of law, each purchaser of propanil from Rohm and Haas automatically acquires the right to use it, or resell it for use, in the patented method. In the absence of the implied authorization, such resale would constitute contributory infringement. Although Rohm and Haas has thus authorized another to sell propanil, § 271(d) provides that Rohm and Haas shall not "be denied relief or deemed guilty of misuse or illegal extension of the [Wilson] patent right by reason of" having done that act.

Lastly, respondent Rohm and Haas has "sought to enforce [its Wilson] patent rights against infringement or contributory infringement". Despite respondent's refusal to grant express licenses to them under the Wilson patent, petitioners insist on selling propanil for the patented method. Rohm and Haas has brought suit against the petitioners to enjoin their continued infringement of the Wilson patent, charging contributory infringement and active inducement of infringement, the latter rendering petitioners "liable as an infringer" pursuant to 35 U. S. C. § 271(b). Seeking to enforce the Wilson patent against petitioners rather than license them is also an act that does not constitute "misuse or illegal extension of the patent right" (35 U. S. C. § 271(d)(3)).

As § 271(d) also expressly provides, no combination of the above-described acts can give rise to patent misuse or an illegal extension of the patent monopoly.

In making the initial finding of contributory infringement to bring 271(d) into play, the Court of Appeals correctly noted that defendant-petitioners recommended propanil *only* for use in controlling weeds in rice and knew all along that their customers used propanil in the infringing methods they recommended (A. 5-6). While petitioners persist in calling this legitimate competition, the acts they characterize as "competition" are actually infringement as defined in § 271(c).

There can be no doubt that a patent owner has the right to exclude others within the field of his patent monopoly as long as he does not thereby interfere with *legitimate* competition *outside* of the patent. In passing 35 U. S. C. § 271(c), Congress expressly authorized the patentee of a method patent to exert limited control over unpatented but nonstaple products *per se*. The entire doctrine of contributory infringement is based on that premise, and its continued validity as demanded by public policy was reaffirmed by Congress in 1952.

The statute benefits the public by encouraging patentees to develop uses for known but useless materials. If and when any other practical use is discovered for propanil, the statutory exception will no longer apply, and Rohm and Haas will adopt a suitable program to avoid any interference with legitimate competition. Rohm and Haas is certainly not seeking an unlimited monopoly in propanil, the equivalent of the invalid patent claim of Monsanto to propanil *per se* which embraced the compound and any and all uses thereof whether known or unknown at the time of issuance, nor does the statute or the decision of the Court of Appeals grant such rights to Rohm and Haas. Rather, Rohm and Haas seeks a reasonable reward for its patented discovery for so long as that discovery is the only substantial use for the otherwise useless compound. Until such other uses exist, there is no legitimate business outside the patent monopoly which is affected by Rohm and Haas' conduct.

The Court of Appeals properly declined to rewrite and inject a compulsory licensing obligation into section 271 (A. 43-44): "We decline to rule that a patentee must license under (d)(2) in order to use his rights under (d)(1) and (d)(3). A general licensing obligation is foreign to a statutory scheme in which patentees are free to suppress entirely or reserve for themselves their inventions". Over seventy years ago, the Supreme Court affirmed a patent owner's right to "reserve to himself the exclusive use of his invention" and held that "he is neither bound to use his discovery himself nor permit others to use it", *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U. S. 405, 425 (1908). This is still the law. *Cataphote Corp. v. DeSoto Chemical Coatings, Inc.*, 450 F. 2d 769, 774 (9 Cir. 1971) *cert. den.* 408 U. S. 929 (1972). Further affirmation of a patentee's "right to exclude others from making, using, or selling the invention" is found in 35 U. S. C. § 154. Congress affirmed that basic right in enacting § 271(d) which permitted the patent owner himself to derive revenue from acts which normally would be contributory infringement while at the same time authorizing him to sue others to enforce his patent rather than being compelled to license it. Section 271(d)(3) does not require a patentee to offer the accused a license before proceeding "to enforce his patent rights."

Petitioners do not dispute that Rohm and Haas' conduct falls within the three exceptions to misuse stated in § 271(d)(1), (2) and (3) (petition, p. 5), but petitioners go on to argue that Rohm and Haas must nevertheless be held guilty of misuse because it engaged in a fourth activity, "something else not authorized—compelling those who wish to practice the patented invention to purchase

propanil from Rohm and Haas, thereby tying a license under the patent to the purchase of the unpatented material" (petition, p. 6). This so-called "something else not authorized" is pure verbal illusion, for it is merely a restatement of Rohm and Haas' sales and patent enforcement activities permitted by § 271(d)(1), (2), and (3), *supra*, plus the *inevitable operation* of the legal doctrine that purchasers from Rohm and Haas receive an implied license to practice the patented method.

The Court of Appeals readily saw through petitioners' "tying" argument, holding that the operation of the implied license doctrine does not constitute illegal "tying" (Footnote 27, A. 42-43):

> "Once an item has been conveyed, it passes beyond the patentee's monopoly power and the buyer can use it or sell it as he wishes. See e.g., Adams v. Burke, 84 U. S. (17 Wall.) 453, 21 L. Ed. 700 (1873), and, more recently, Aro Manufacturing Co. v. Convertible Top Replacement Co., 377 U. S. 476, 497, 84 S. Ct. 1526, 12 L. Ed. 2d 457 (1964). Surely no statute was required to save a license that operates as a matter of law from being deemed patent misuse."

The logical extension of petitioners' position, i.e. that Rohm and Haas must either refrain from selling propanil, refrain from patent enforcement, or engage in compulsory licensing of the Wilson patent, further shows the bankruptcy of their position.

B. The Court of Appeals Correctly Analyzed the Decisional History Prior to the 1952 Patent Act.

As a valid adjunct to its statutory construction, the Court of Appeals discussed at length the historical progression of judicial decisions leading to the enactment of

271(c) and (d). It first discussed (A. 10-19), the development of the "judicial invention" of contributory infringement "designed to give effective protection to patentees" against those knowingly supplying others with the tools of infringement, and its gradual erosion by the judicially created doctrine of patent misuse (A. 18-25) culminating in the *Mercoid* decisions.[6]

Before the *Mercoid* cases, this Court had examined the interrelationship of misuse and contributory infringement in five instances. In all of these cases, the determination of whether a particular activity constituted patent misuse rested primarily on whether that activity improperly extended the scope of the patent to interfere with legitimate competition. In *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502, 516 (1917), the Court set forth the standard for patent misuse:

> "We are convinced that the exclusive right granted in every patent must be limited to *the invention* described in the claims of the patent, and that it is not competent . . . [to] *extend the scope* . . . by restricting the use of it to materials necessary in its operation, but *which are not part of the patented invention.*"

The Court then found misuse in the requirement that a purchaser of a patented machine use in that machine only film—a staple article capable of substantial noninfringing use—purchased from the patentee. In succeeding cases, patent misuse also barred relief for contributory infringement:

> 1) where the patentee had required users to purchase for use in a patented combination solid carbon dioxide

6. *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U. S. 661 (1944); and *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U. S. 680 (1944).

—a staple article capable of substantial noninfringing use—from its exclusive licensee, *Carbice Corp. of America v. American Patents Dev. Corp.*, 283 U. S. 27 (1931);

(2) in the limitation of the right to use a patented process by the owner of the patent to purchasers of bituminous paving material—a staple article capable of substantial noninfringing use—from the patentee, *Leitch Mfg. Co. v. Barber Co.*, 302 U. S. 458 (1938);

3) in the requirement that purchasers of a patented dispenser buy salt—a staple article capable of substantial noninfringing use—from the patentee, *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942); and

4) in the requirement that those who wished to practice a patented process for reinforcing shoe insoles purchase rubber cement—a staple article capable of substantial noninfringing use—directly or indirectly from the patent owner, *B. B. Chemical Co. v. Ellis*, 314 U. S. 495 (1942).

In all of these patent misuse holdings prior to the *Mercoid* cases, the unpatented component sold by the alleged contributory infringer was a staple article having substantial noninfringing uses and the patentee had not offered expressly to license others to use the unpatented component in the patented article, process or combination. Under the Court's holdings, the sellers of such established commodities as film, carbon dioxide, paving material, salt, and rubber cement, were given protection against the contributory infringement doctrine.

In the first *Mercoid* case (320 U. S. 661), the patent related to a heating system comprising a stoker, a thermostat and a stoker switch. The stoker switch was unpatented *per se*, but it had use only in the patented heating system; it was not "a staple article or commodity of commerce" and it had no "substantial noninfringing use". The patentee adopted a policy of granting a license to customers who purchased the unpatented stoker switch. When the patentee brought suit for contributory infringement against an unlicensed seller of a stoker switch which had no use except in the patented heating system, the defense of patent misuse was raised and sustained by the Supreme Court. Justice Douglas wrote that the Court's decision and those preceding it, "limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider." (320 U. S. at 669).

In the second *Mercoid* case (320 U. S. 680), the Court sustained the patent misuse defense against the manufacturer of the switch, to whom the patentee had granted an exclusive license. In *Mercoid II*, Justice Douglas went further and ruled that any attempt to bring unpatented goods within the protection of the patent is measured by the antitrust and not the patent laws.

This brief summary hardly does justice to the Court of Appeals' thorough analysis of the historical development of the contributory infringement doctrine and its judicial counterbalancing by the patent misuse doctrine up to *Mercoid II* in 1944. Following its meticulous analysis of these decisions, the Court below took note of the historical facts that (A. 26):

> "In the aftermath of Mercoid, strange to say, there was great confusion in the courts and among the patent bar regarding the proper scope of contributory infringement."

and that:

> "A movement arose among the bar to put some effective measure of contributory infringement back into the law, and various committees came forward to draft proposed legislation for consideration by the congressional committee then codifying the general patent law. The ultimate result was section 271."

The petition before the Court confirms that the *Mercoid* cases created "consternation" resulting in the enactment of "a statutory law of contributory infringement" and the corresponding "provisions expressly exempting certain activities from the antitrust laws and the law of patent misuse", i.e. § 271(d) (petition, p. 9).

C. The Legislative History of Section 271 Supports the Court of Appeals' Decision and Is Largely Ignored in the Petition for Certiorari.

With the decisional perspective effectively laid out, the Circuit Court quoted extensively from the legislative history of § 271 and concluded that it decisively establishes respondent Rohm and Haas' position: that § 271(c) preserves the doctrine of contributory infringement, at least as it applies to the sale of nonstaple articles, that § 271(d) imposes statutory limitations on the patent misuse defense, and that Rohm and Haas' activities fit within the letter and spirit of those limitations.

In the committee hearings on the Patent Act of July 19, 1952, one of the principal draftsmen commented on section 271 (A. 27):

> "Therefore we have always felt . . . that to put any measure of contributory infringement into law you must, to that extent and to that extent only, specifically make exceptions to the misuse doctrine, and that is the purpose of paragraph (d)."

The same draftsman specifically stated that § 271 covered "the Mercoid type of situation" (A. 87-88), and explained the origin of § 271(c) and (d) as follows (A. 144-51):

> "Now, we have a patent law association up there, as you have heard, which decided to tackle this problem of contributory infringement after the Mercoid decision and propose some legislation.
>
> * * *
>
> "Mr. Byerly wrote a proposal which was in substance along the lines of paragraph (c) which revived contributory infringement . . . I said, 'That is fine but it won't work because the reason we don't have contributory infringement is that every time you try to enforce a patent against a contributory infringer, the court says it is misuse and throws you out.'
>
> * * *
>
> "So attached to paragraph (c) we have a paragraph (d) that says that the recovery, the enforcement against contributory infringers, the holding out of the patent against contributory infringers, and granting them licenses, the use of it to protect the business and making money out of it, and getting your reward as a patentee, all of these things shall not be misuse, and then contributory infringement, which we have had all the time, would become effective again to the extent that they wish to have it so."

Thus, Congress recognized that § 271(c) made contributory infringement, as limited to nonstaple articles,[7] a

7. Section 271(c) reinstated the doctrine of contributory infringement, *but limited it to nonstaple articles.* The rationale behind this studied language is clear. Insofar as a patent under a revived doctrine of contributory infringement might extend a

part of our statutory law, and that § 271(d), in order to make contributory infringement a meaningful doctrine in light of *Mercoid* I and II, established important statutory exceptions to the patent misuse doctrine.

In an article published soon after the passage of § 271, this same draftsman further clarified the intended meaning and effect of this section. Implicitly referring to *Mercoid* and its progeny, he stated:

> "The way the courts have been putting it of late is to say that the patentee has been deriving profit not from the monopoly covered by his claims but from the sale of 'unpatented' wares. If, under Section 271, a patentee could hold someone else liable for doing what he himself is doing business-wise, his business conduct is no misuse . . . Paragraph (d) applies." Rich, *Infringement Under Section 271 of the Patent Act of 1952*, 35 J. PAT. OFF. SOCY. 476, 494 (1953).

This same draftsman made it clear that "The last paragraph of this section [271(d)] provides that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent." H. R. Rep. No. 1923 on H. R. 7794, 82d Cong., 2d Sess. 9; cited with approval in *Aro I*.

The Court below referred to and quoted from the hearings on H. R. 3760, House Judiciary Committee, 82d Cong. 1st Sess. (1951) as follows (A 36-38):

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7. (Cont'd.)
monopoly to a staple article, i.e., a product already being bought and sold, it removed a product of value from the public in the manner of the old Tudor monopolies. However, in using contributory infringement to grant a limited monopoly in what had been merely laboratory curiosities having no prior commercial use at all before the patented discovery, the public has nothing of value taken away and in practicing the new discovery enjoys benefits from previously useless materials.

"This understanding of the joint effect of paragraphs (c) and (d) is reinforced by the arguments of the bill's opponents, most prominently the Justice Department. T. Hayward Brown, Chief of the Patent Litigation Unit, showed especial opposition to paragraph (d), which the Justice Department deemed a major and controversial change from then current misuse principles and, as such, inappropriate for inclusion in a codification.

"One who read section 271 differently from Mr. Rich and is thus often cited to support a narrow interpretation of it, is Representative Crumpacker, a member of the House subcommittee conducting the hearings on the bill. When Mr. Fugate of the Justice Department railed against the provision because of its ostensible legitimation of certain types of misuse, Crumpacker's response indicates he read the language as applying to innocent conduct not previously deemed misuse or 'monopolistic practices' by the courts. 1951 Hearings at 165-64 and following. Mr. Rich was brought back to clarify matters. Mr. Rogers then summarized Rich's position as follows:

> "Now, due to what many members of the patent bar believe, that it did away with contributory infringement cases, you feel that we should now state as a positive law a cause of action against contributory infringement as set forth in section (c), and that if he has done one of the three things in section [(d)], that shall not be considered a misuse of his patent, and *thereby reestablish what you thought you had before the Mercoid case.* Isn't that about what the situation is?

"*Id.* at 173 (emphasis added).

"Mr. Rich agreed and further explained that to recover a full complement of contributory infringement meant something had to be done about misuse.

"So attached to paragraph (c) we have a paragraph (d) that says that the recovery, the enforcement against contributory infringers, the holding out of the patent against contributory infringers, and granting them licenses, the use of it to protect the business and making money out of it, and getting your reward as a patentee, all of these things shall not be misuse, and then contributory infringement, which we have had all the time, would become effective again to the extent that they wish to have it so."

The Circuit Court noted that the statute was expressly intended to make substantive changes in the law (A. 30-31), that the chief draftsman's explanations, of which the above are a small part, "indicates that section 271 was designed to immunize behavior like that in issue here" (A. 33), and that even opponents of the statute similarly construed it (A. 36). The opinion below is not in conflict with *Mercoid*. It was decided under statutory law not in existence when the *Mercoid* cases were decided. *Mercoid* is relevant not as the legal frame of reference for decision here, but as historical perspective leading up to passage of the real point of reference—subsections 271(c) and (d) which were passed in an acknowledged effort to modify the decisional law as it existed in 1952. In so holding and in delving extensively into the legislative history, even more so than we have done here (A. 30-41), the Court below applied traditional rules of statutory construction to support its decision in respondent's favor. The Court of Appeals concluded (A. 42):

". . . the impression becomes almost overpowering that Congress *did* clearly provide for a patentee's right to exclude others and reserve to itself, if it chooses, the right to sell nonstaples used substantially only in its invention." (Emphasis the Court's).

Petitioners have virtually ignored the legislative history, disposing of it with scarcely any substantive comment (petition, pp. 14-15).

II. There Is No Conflict Between the Decision Below and the Cases Decided Since Passage of the 1952 Patent Act.

In the only two cases in which this Court specifically discussed the effect of § 271(d), *Aro I* and *Aro II*, *supra*, the Court faced actions for contributory infringement based on a claim that defendants' cloth tops for convertibles aided an infringing reconstruction of the patented mechanical top, rather than a noninfringing repair of the item.

In *Aro I* the Court rejected the contributory infringement charge on the ground that there was no direct infringement, a holding which distinguishes *Aro I* from this case in which direct infringement by users of propanil is admitted. The Court below, commenting that its decision was not in conflict with *Aro I*, stated (A. 44-45):

"In *Aro I*, in the course of rejecting the claim, the majority cited *Mercoid* for the principle that the separate unpatented elements of a combination patent are not protected by the patent monopoly. The technical ground of the opinion, however, seemed to be the determination that the purchaser of an auto with a convertible top gains, along with the right to use the top, the right to replace its worn out parts. Unless his actions are so extensive as to become a

prohibited reconstruction, his action in replacing, for example, fabric portions of the top, does not constitute an infringing action. Without someone's committing of a *direct* infringement, there was of course no predicate for contributory infringement; there was no tort being committed in which the seller of replacement tops could participate. Justice Harlan, joined by two others, dissented, arguing that the majority's reliance on *Mercoid* destroyed the significance of cases such as *Leeds & Catlin* that gave relief against contributory infringement on principles approved by Congress in section 271." (Emphasis the Court's)

In *Aro II*, the Supreme Court actually *upheld* the doctrine of contributory infringement and permitted the patent owner to sue the vendor of the unpatented product —a holding which is totally consistent with that reached by the Court below. In discussing *Aro II*, the Court below commented (A. 45):

"In *Aro II* Justice Brennan wrote for a different majority. In *Aro I* he had agreed with Justice Harlan's view of section 271 but had concurred with the majority on the simple ground that without a direct infringement no contributory liability was possible. The new majority now distinguished *Aro I* as involving only car buyers from manufacturers who had been *licensed* to make the patented convertible top in auto construction. In *Aro II*, by contrast, the replacement tops were also designed to renew the covering on cars manufactured by a company that had *refused* a patent license. The Court held in part that because this unlicensed manufacturer had no right to construct or convey the invention, buyers of these cars received no right even to *use* the invention, much

less the right to repair it. Because the Court deemed each such repair by those buyers an independent direct infringement, the knowing seller of replacement tops was open to liability as a contributory infringer." (Emphasis the Court's)

The Court of Appeals pointed out herein that the *Aro* cases involved a completely different market setting from that involved here (A. 46-47):

". . . Because the policies involved in our factual situation—a primary use market—differ so from the policies involved in protecting competition in a market for unpatented elements to be used as mere replacement parts at the hands of one with a legitimate right to tinker with a patented device by reason of his absolute ownership thereof, we consider the *Aro* opinions as not controlling the result of our case."

Thus, the Circuit Court's opinion is not in conflict with the *Aro* decisions. Indeed, the majority in *Aro II* actually upheld the contributory infringement doctrine in the factual setting there involved.

Petitioners also contend (pp. 12-13) that the decision below is in conflict with *United States v. Loew's, Inc.*, 371 U. S. 38 (1962); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U. S. 100 (1969); *Deep South Packing Co. v. Laitram Corp.*, 406 U. S. 518 (1972); and *Blonder-Tongue Labs, Inc. v. University of Ill. Foundation*, 402 U. S. 313 (1971). *Loew's* is a copyright case and does not even mention § 271(d) or its effect on *Mercoid*. In *Zenith* this Court approved royalty payments on the sales of all items in a given product line without reference to infringement of patents. The *Zenith* decision does not rely on *Mercoid* or on § 271(c) or (d). *Deep South*

dealt with exportation of unpatented machinery for use abroad where no United States patent protection existed. It relied on *Mercoid* only for the proposition that if there is no direct infringement, there can be no contributory infringement (406 U. S. at 526). *Blonder-Tongue* is the noted decision limiting the circumstances in which a patentee may subsequently attempt to enforce a patent once held invalid. A mere recitation of the subject matter of these decisions shows that the Court of Appeals correctly concluded that they were "in a context far afield" from this case and that its decision was not in conflict with any of them (A. 47-48).

Petitioners also erroneously argue (pp. 13-14) that the Circuit Court decision conflicts with the decisions of the lower courts in four other cases, *National Foam System, Inc. v. Urquhart,* 202 F. 2d 659 (3rd Cir. 1953), *Preformed Line Products Co. v. Fanner Mfg. Co.,* 328 F. 2d 265 (6th Cir. 1964), *McCullough Tool Company v. Well Surveys, Inc.,* 343 F. 2d 381 (10th Cir. 1965), and *Ansul Company v. Uniroyal, Inc.,* 306 F. Supp. 541 (S. D. N. Y. 1969), *aff'd* 448 F. 2d 872 (2d Cir. 1971).

These lower court citations relied on by petitioners are far removed from the issues involved here. The *McCullough* case involved a requirements contract which prevented any research by the licensee in the area of the license. Petitioners claim that the court made no distinction between staples and nonstaples, but the plain fact is that the court did not even discuss staples or nonstaples and § 271(d) is not mentioned. The other three cases also present entirely different facts from those existing here and there was no discussion whatsoever of the effect of § 271(d) on such activity. *National Foam System* was a declaratory judgment action which found certain patent license agreements improper because of discriminatory royalty rates. In *Ansul,* the court affirmed a decision reported at 306 F. Supp. 541 (S. D. N. Y. 1969), finding a patent unenforceable because of various violations of the Sherman Act including price fixing, discriminatory royalties, territorial restrictions and refusals to deal. There was no mention of 271(d) by the Circuit Court of Appeals, nor should there have been, and the product sold by the defendant was claimed in the patent in that suit. *Preformed Line Products* held there was a patent misuse because the patentee engaged in exclusive dealing contracts and required purchasers to buy other products in its line as a condition to purchase the patented product. None of these decisions conflicts with that of the Court below.[8]

Whether the patentee chooses to make money from sales of an unpatented, nonstaple article used in a patented

8. The lower court cases closest in point are completely consistent with the decision below. Shortly after the 1952 Patent Act came into force, the court in *Sola Electric Co. v. General Electric Co.,* 146 F. Supp. 625 (N. D. Ill. 1956), squarely faced the effect of § 271(d) on the *Mercoid* decisions (146 F. Supp. at 647-648):

> "Subparagraph (d) of Section 271 is the paragraph with which we are particularly concerned at this time. It certainly makes substantial changes in the law as announced in the Mercoid cases. * * * The court holds, accordingly, that the said Act of 1952 makes proper and lawful that which under the doctrine of the Mercoid cases above cited, would have been a misuse of the patent."

In *Rohm and Haas Company v. Roberts Chemicals Inc.,* 245 F. 2d 693, 699 (4th Cir. 1957), respondent was permitted to assert its method claims for the use of a fungicide which was an unpatented nonstaple article against a contributory infringer. The court recognized the history of the misuse doctrine prior to the 1952 statute, citing *Carbice, Leitch* and *Mercoid* but held that § 271 changed the applicable law and that the patentee was entitled to relief.

Some years later *Harte & Co., Inc. v. L. E. Carpenter & Co.,* 138 USPQ 578 (S. D. N. Y. 1963), reached a similar holding, mentioning several articles written since the 1952 Act which supported this conclusion. Indeed, contrary to petitioner's comments at p. 17, most of the cited articles favor the interpretation reached in the decision of the Court of Appeals herein.

process or from express licenses granted under the patent is a matter on which Section 271(d) makes no distinction. It provides that either course of conduct is exempt from the doctrine of patent misuse. Petitioners' efforts to create an apparent conflict between the decision below and other cases which are not in point offer no reason to grant certiorari.

CONCLUSION.

Since there is no conflict between the decision below and any decision of this Court or any other court and since the Circuit Court correctly construed the applicable statute, this Court should not grant certiorari.

Respectfully submitted,

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Supreme Court, U. S.
FILED
DEC 10 1979
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM 1979

No. 79-669

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION AND
CRYSTAL CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

REPLY BRIEF OF PETITIONERS

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December 7, 1979

IN THE

Supreme Court of the United States

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REPLY BRIEF OF PETITIONERS

Petitioners have requested the granting of a writ of certiorari because

> (1) The important question of the effect of § 271(d) of the Patent Law on the control of unpatented non-staple materials has never been, but should be, decided by this Court.

(2) The Fifth Circuit Court of Appeals' construction of § 271(d) is in conflict with this Court's repeated condemnation of tying arrangements, and in particular is in conflict with *Aro II*.[1]

(3) The holding of the Fifth Circuit Court of Appeals is in conflict with the holding of the Second Circuit Court of Appeals in *Ansul Company* v. *Uniroyal, Inc.*, 448 F2d 872 (1971).

Respondent did not deal with the first of these at all, and in responding to the other two, it skirted the real issue, and ignored the relevant holdings of *Aro II* and *Ansul*.

ARGUMENT

I. It is Misuse to Use the Leverage of the Wilson Patent to Coerce Farmers into Buying Propanil from Rohm and Haas.

Contrary to respondent's argument, Petitioners do not contend that misuse results solely from the implied license which purchasers of propanil receive by the "inevitable operation of law." The misuse arises from the use of the leverage of the Wilson patent to coerce farmers into buying propanil from Rohm and Haas. By its activities, Rohm and Haas has told the farmers of the United States that they can use the patented method, if, and *only* if, they buy pro-

This is precisely the same conduct which was condemned so explicitly in the *Mercoid* cases;[2] there can no longer be

[1] Aro Manufacturing Co. v. Convertible Top Replacement Co., 377 U.S. 476, 12 L.Ed.2d 457, 84 S. Ct. 1526 (1964).

[2] Mercoid Corporation v. Mid-Continent Investment Co., 320 U.S. 661, 88 L.Ed. 376 (1943); and Mercoid Corporation v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680, 88 L.Ed. 396 (1943).

panil from Rohm and Haas. By failing to offer the farmers any alternative, Rohm and Haas has tied the granting of a license to the purchase of the unpatented material. any question that such conduct is in fact a tying arrangement. The issue here is whether the effect of § 271(d) is to excuse such a tying arrangement.

There would be no tying arrangement, no coercion and no misuse if Rohm and Haas merely sold propanil, licensed others to sell propanil and sued those who contributorily infringe by selling propanil to infringers. All of these activities are expressly permitted by § 271(d). And the implied license to use the patented method necessarily follows the sale of propanil by Rohm and Haas, but that too is not misuse. We have no quarrel with respondent on this point. The misuse results solely because, in addition, Rohm and Haas refuses to offer the farmers any alternative way to obtain a license, thereby tying the license to the purchase of the unpatented material.

II. Congress did not Intend to Allow Monopolization of Unpatented Nonstaples.

Section 271(d) was adopted to insure the right of patent owners to sell unpatented non-staples, to license others to sell them, and to sue those who contributorily infringe by selling such non-staples to infringers. It was never Congress' intention to condone tying arrangements or monopolization of unpatented non-staples. Contrary to respondent's contention, and the holding of the Fifth Circuit, the legislative history does not reveal any such intention.

It is true, as the court below noted (A-36),[3] that the Department of Justice originally opposed the enactment of § 271(d) on the alleged ground that it would effect the result

[3] "A" followed by a number indicates a page of the Appendix to the Petition.

for which respondent here contends. However, as we shall show, the Department finally dropped this contention.

Mr. T. Hayward Brown made the first statement for the Department of Justice:

> "Paragraph (d) would greatly impair the salutary doctrine that a patentee who has misused his patents may not recover in a suit for either direct or contributory infringement. The Supreme Court has held that a requirement by a patentee that users purchase from him or his exclusive licensee unpatented parts not within the scope of the patent, was a misuse of the patent and barred recovery even though contributory infringement was assumed to exist. This doctrine is a most important factor in the enforcement of the antitrust laws with respect to tying arrangements and the Department is opposed to any impairment thereof." (p. 97 of Hearings Before Subcommittee No. 3 of the Committee On The Judiciary, House of Representatives, 82nd Cong. 1st Sess. [1951]).

In later testimony on behalf of the Department of Justice, Mr. Fugate pointe dout (A-129) that "misuse of patents," insofar as it has anything to do with contributory infringement, is the doctrine that one who has a patent may not license that patent upon condition that the purchaser may not deal in the goods of another. Mr. Fugate argued, as respondent does here, that § 271(d) would allow one to enforce a patent against a contributory infringer even though there were such a tying arrangement (A-137-141). Congressmen Crumpacker insisted that Mr. Fugate was reading the language backward:

> "It seems to me that the language is clear, and it says that he shall not be denied relief or be deemed guilty of misuse because of having done any of these three things. It doesn't say the reverse of that, that because of having done these things he shall be deemed not guilty of misuse." (A-138).

After further discussion Mr. Crumpacker still insisted that "the language is clear and unequivocal, and it seems to be capable of only one interpretation, and that interpretation is entirely contrary to that which the Department seems to be placing upon it." (A-142) Mr. Fugate then stated that he believed Mr. Rich placed the same interpretation on it and asked him if he agreed. Mr. Rich answered (A-143):

> "I will agree with that to this extent: That as I testified it is necessary to make an exception to misuse to the extent that you revive contributory infringement in paragraph (c), and this whole section (d) is entirely dependent on (c). Where (d) refers to contributory infringement, it only refers to contributory infringement as defined in (c) and nothing more."

Mr. Crumpacker then stated:

> "In other words, all it says is that bringing an action against someone who is guilty of contributory infringement is not a misuse of the patent."

Mr. Rich: "That is true."

After this Mr. Fugate never again contended that his former interpretation of the language was correct. However, after some additional discussion Mr. Crumpacker came back to the question, asking Mr. Rich (A-151):

> "As you interpret this paragraph (d) as it now reads, would it in any way prevent a court from holding the monopolistic practices referred to as being a misuse of a patent? That is, where a patentee has actually been engaged in *trying to gain a limited monopoly of unpatented articles through the use of a patent.*" (Emphasis added)

Mr. Rich answered:

> "The answer is that (d) would not prevent their being held, the acts being held to be misuse."

Mr. Fugate, speaking immediately after Mr. Rich, did not disagree.

Then, in the last comment on the matter (A-154), Mr. Rich made it clear that one still might be guilty of misuse even though subsection (d) were enacted, stating that if a patent owner goes beyond the three specific acts enumerated, and does other acts which amount to misuse, then the misuse doctrine would be applicable.

Thus, even though the Department of Justice originally contended that § 271(d) would allow tying arrangements and that Mr. Rich so construed it, the ultimate result was that Mr. Crumpacker rejected this construction, Mr. Rich disavowed it, and the Department of Justice dropped its contention. Unquestionably, the intent was not to allow the use of patents to effect tying arrangements.

III. The Decision Below is in Conflict with Aro II.

Respondent would have this Court believe that *Aro II* held merely that the knowing sellers of replacement convertible tops were subject to liability as contributory infringers. However, the opinions in *Aro II* went much further.

Among the issues determined in *Aro II* was the effect of an agreement in which CTR, the patent owner, granted Ford a license to sell, and Ford's customers a license to use, the patented combination, but restricted replacement of the fabric to that provided by Ford. The Court specifically stated that where the patentee has granted to a purchaser an implied license to use, "he cannot impose conditions concerning the unpatented supplies, ancillary materials, or components with which the use is to be effected" (377 U.S. at 497), citing *Mercoid* and similar cases. The Court further noted:

> "It follows that here, where the patentee has by the Ford agreement *explicitly* authorized the purchasers to use the particles, the patentee cannot thereafter restrict that use by imposing a condition that replacement parts may be purchased only from a licensed supplier" (377 U.S. at 497, emphasis by the Court).

The Court could not have stated more clearly that where a license under a patent is granted, it cannot be conditioned on the purchase of unpatented materials from the patentee or his licensee. Nevertheless, the Fifth Circuit in its decision below has held that such conditioning is proper.

In *Aro II*, CTR derived revenue from acts which, if performed by another without its consent would constitute contributory infringement of the patent, in that it, through its licensee Ford, derived revenue from sale of the replacement fabric for the patented convertible tops; it licensed others to perform acts which if performed without its consent would constitute contributory infringement of the patent, in that it licensed Ford and General Motors to sell the replacement fabric; and it sought to enforce its patent rights against infringement and contributory infringement by bringing suit against Aro.

Thus, CTR did all of the things specified in parts (1), (2) and (3) of § 271(d), yet this Court held that it could not condition a license on the purchase of the unpatented fabric from a licensed supplier. In the case at bar, however, such conditioning was held to be permissible. A clear conflict is presented.

IV. The Only Pertinent Court of Appeals Decisions Support Petitioners

In each of the cases cited at pages 13 and 14 of the Petition herein, the courts of appeals found that the patent owner misused its patent when it granted licenses only

with the purchase of unpatented materials from it, and refused to allow prospective licensees to obtain the unpatented materials from any other source. Respondent does not dispute that each of those cases so found, but merely argues that they are distinguishable on their facts. Again, however, as in its discussion of the *Aro* cases, respondent fails to mention the facts in those cases which are analogous to the facts in the present case.

For example, in *McCullough Tool Company* v. *Well Surveys, Inc.*, 343 F 2d 381 (10 Cir 1965), Well Surveys ("WSI") argued, as respondent does here, that its failure to give a licensee an express license to manufacture the instruments used to practice the patented method was not a misuse. (343 F2d at 407). The trial court held that the practical effect of WSI's license agreements was to require licensees to purchase the necessary instruments from WSI. The Court of Appeals held:

> "There is no showing that this finding is clearly erroneous and it establishes the prohibited 'tying arrangement' . . ." (343 F 2d at 407).

The Court did not mention § 271(d), but there would have been a need to mention it only if it had had an effect upon the result.

In *Ansul Co.* v. *Uniroyal, Inc.*, supra, the patent was, as respondent notes, found unenforceable because of various violations of the Sherman Act. One of these was "failing to permit the practice of the invention by those who desire to purchase the unpatented product from the patentee's competitors" (*Ansul Co.* v. *Uniroyal, Inc.*, 306 F. Supp. 541, 562 (SDNY 1969)). In that case, in which Uniroyal gave an implied license with the sale of the unpatented product, it was held that offering a separate license at a royalty rate too high to allow viable competition did not avoid misuse

(306 F. Supp. at 564). The Court of Appeals agreed (448 F. 2d at 882, fn.4).

Respondent has not pointed to any facts which distinguish the present case; in truth, there are none.

The only court of appeals case relied upon by respondent is not in point. *Rohm and Haas Co.* v. *Roberts Chemicals Inc.*, 245 F2d 693, 699 (4 Cir. 1957) does broadly discuss one effect of § 271, but makes no mention of a patent owner who refuses to license except with the purchase from him of unpatented materials, or of whether § 271(d) protects such a tying arrangement. At the most, this case indicates that since the enactment of § 271, patentees may sue contributory infringers. We do not disagree.

V. Rohm and Haas has a Legitimate Alternative

There are many legitimate ways in which Rohm and Haas can exploit its patented method. For example, they can license applicators or farmer cooperatives, or they can use the common method of a label license to users. Perhaps the easiest way is for Rohm and Haas to grant to other propanil producers the right to pass on a license to their customers. This would insure Rohm and Haas a royalty on all propanil sold for use in the patented method, in addition to its profit on its own sales of propanil. Furthermore, the farmers would then have an alternative, a license which does not require the purchase of propanil from Rohm and Haas. There would be no tying arrangement, no coercion and no misuse.

Rohm and Haas objects that the logical extension of petitioner's position is that Rohm and Haas must either refrain from selling propanil, refrain from patent enforcement, or engage in compulsory licensing. The answer to this is that Rohm and Haas has already voluntarily licensed

its patent, through the licenses implied in law by its sales with labels giving instructions on how to use the material. Having decided to license its patent, it must do so in a legal manner. It must offer an alternative outside the tying arrangement.

Furthermore, compulsory licenses are a proper remedy where patent abuses have been proven. *Besser Mfg. Co.* v. *United States,* 343 U.S. 444, 96 L. Ed. 1063, 72 S. Dt. 838 (1952); *United States* v. *Glaxo Group Ltd.,* 410 U.S. 52, 351 L. Ed.2d 104, 93 S. Ct. 861 (1971).

CONCLUSION

We have not dealt with all the errors in respondent's brief, because we deem the foregoing a sufficient rebuttal to satisfy the Court that the Petition should be granted.

Respectfully submitted

.....

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Supreme Court, U. S.
FILED
FEB 20 1980
MICHAEL RODAK, JR., CLERK

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February 21, 1980

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OPINIONS BELOW

The Opinion of the United States Court of Appeals for the Fifth Circuit is reported at 599 F.2d. 685, and is printed in the Appendix at page 139. The Opinion of the United States District Court for the Southern District of Texas, Houston Division, is reported at 191 USPQ 691, and is printed in the Appendix at page 60, and a Supplemental Opinion, unreported, is printed in the Appendix at page 122.

JURISDICTION

The Judgment of the Court of Appeals for the Fifth Circuit was entered on July 30, 1979. The petition for writ of certiorari was filed on October 24, 1979, and was granted on January 7, 1980. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

QUESTION PRESENTED

Does § 271(d) of the Patent Laws permit the owner of a method patent to monopolize and reserve to himself the sale of an unpatented nonstaple product which is used in the practice of the patented method?

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Constitution of the United States, Article I, Section 8, Clause 8:

> The Congress shall have power . . .
>
> To promote the progress of . . . useful arts, by securing for limited times to . . . inventors the exclusive right to their . . . discoveries.

Title 35, United States Code:

> § 101. Inventions patentable
>
> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.
>
> § 112. Specification
>
> * * *
>
> The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

> * * *
>
> § 154. Contents and term of patent
>
> Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of issue fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.
>
> § 271. Infringement of patent
>
> (a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.
>
> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> (c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.
>
> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1)

derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

STATEMENT OF THE CASE

This is a suit for patent infringement brought by Respondent Rohm and Haas against Petitioners on June 11, 1974, the Court having jurisdiction under 28 U.S.C. § 1338(a). On Cross-Motions for Summary Judgment (A. 40, 43), based solely on facts admitted or stipulated by the parties (A. 1-39) the District Court granted Petitioners' Motion and dismissed the case (A. 133), holding that Rohm and Haas had misused its patent. The United States Court of Appeals for the Fifth Circuit reversed and remanded for a trial on the merits (A. 183), holding that the activities of Rohm and Haas were permitted by the provisions of 35 U.S.C. § 271(d), and did not amount to patent misuse.

The patent in suit, United States Patent No. 3,816,092 (Exhibits Volume p. 1), which was issued on the day this suit was filed, describes and claims a method of selectively controlling weeds in crops such as rice by applying to the weeds and crops the chemical compound 3,4-dichloropropionanilide (hereinafter "propanil"). Propanil itself is not patented. A patent on propanil, No. 3,382,280, owned by Monsanto Company, was held invalid as a result of litigation between Monsanto and Rohm and Haas, *inter alia* on the ground that propanil was described in or taught by the prior art. ***Monsanto Company*** **v.** ***Rohm and Haas Company,***

312 F.Supp. 778 (E.D. Pa. 1970), *affirmed,* 456 F.2d 592 (3 Cir. 1972), *cert. denied,* 407 U.S. 934 (1972).[1] Monsanto subsequently dedicated the patent to the public.

Rohm and Haas does not itself practice the patented process, but makes propanil and sells it in containers bearing instructions for farmers and others to perform the process. By operation of law, purchasers of propanil thus receive implied licenses to use the patented method. Rohm and Haas has refused to grant any other licenses under its patent, so that the only way it has been possible for users to obtain a license to perform the patented process has been to buy propanil from Rohm and Haas (A. 38). The license is thus tied to the purchase of the unpatented material.

Petitioners have sold propanil for application to rice crops since before Rohm and Haas received its patent (A. 37). When its method patent was issued, Rohm and Haas brought this suit, charging Petitioners with inducing infringement in violation of 35 U.S.C. § 271(b) and with contributory infringement in violation of 35 U.S.C. § 271(c) (A. 3). Petitioners asked Rohm and Haas for royalty-bearing licenses under the patent, but Rohm and Haas refused, stating that licenses would be granted only with purchases of propanil from Rohm and Haas (A. 38). Recognizing this attempt to monopolize propanil as a misuse of the Wilson patent which rendered it unenforceable against both users of the process and suppliers of the chemical, Petitioners have continued to sell propanil in

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[1] Petitioners Dawson Chemical Company and Crystal Chemical Company were also sued by Monsanto for infringement of the propanil patent. The Fifth Circuit Court of Appeals, in *Monsanto Company* v. *Dawson Chemical Company, et al.,* 443 F.2d 1035 (1971), *cert. denied,* 405 U.S. 934 (1972), reversed the District Court's holding of validity of the patent.

containers which bear recommendations and instructions for application to rice crops. For the purpose of this proceeding it is presumed that Petitioners are contributory infringers under Section 271(c).

It is undisputed that if propanil were a staple material, having a substantial non-infringing use, it would be misuse to require patent licensees to purchase the unpatented material from Rohm and Haas. However, Rohm and Haas asserts that it has the right to so condition its licenses because propanil is a nonstaple,[2] so that it is only doing that which is permitted by Section 271(d):

(1) deriving revenue from acts which if performed without its consent would constitute contributory infringement, (i.e., selling propanil),

(2) licensing others (its distributors) to sell propanil, and

(3) enforcing its patent rights against those who sell propanil.

Petitioners point out, however, that Rohm and Haas is not "otherwise entitled to relief," as required by Section 271(d), because, in addition to the three activities authorized by the statute, it is doing something else not authorized: compelling those who wish to practice the patented invention to purchase propanil from Rohm and Haas, thereby tying a license under the patent to the purchase of the unpatented material.

Rohm and Haas contends, and the Court of Appeals agreed, that it was the intent of Congress to allow such a tying arrangement in the case of nonstaple materials, thereby effectively allowing the patent on the process to be used to monopolize the material used in the process.

[2] The term "nonstaple" is a term of art which has been used, and is used herein, to indicate a component as defined in Section 271(c), the unlicensed sale of which would constitute contributory infringement.

SUMMARY OF THE ARGUMENT

Since the first patent law was enacted in 1790, the *exclusionary* right of a patent has extended only to what was invented. In *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.,* 243 U.S. 502, 61 L.Ed. 871, 37 S.Ct. 416 (1917), this Court held that the patent statutes then in effect gave the inventor exclusive rights only with respect to the invention defined in the claims of his patent, because any greater reward would have exceeded the benefit of his invention to the public. This same limitation is incorporated in Sections 101, 112 and 154 of the present patent laws.

The court-made law of contributory infringement was a form of relief which gave patent owners a more convenient means, in some cases, to prevent direct infringement, by bringing suit against those who sold materials and elements intended to be used in an infringement. But this doctrine did not permit a patent owner to use his patent to force customers to buy those unpatented materials and elements from the patent owner, for that was a misuse of the patent. *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661, 88 L.Ed. 376, 64 S.Ct. 268 (1944), hereinafter *"Mercoid I,"* and *Mercoid Corp.* v. *Minneapolis-Honeywell Reg. Co.,* 320 U.S. 680, 88 L.Ed. 396, 64 S.Ct. 278 (1944), hereinafter *"Mercoid II."*

Rohm and Haas has a patent on a method in which propanil is used; it does not have a patent on propanil. If propanil is a nonstaple Rohm and Haas can bring an action for contributory infringement against those who sell the chemical for use in an infringement of the patent, unless the patent is being misused. The patent is being misused by conditioning licenses under it on the purchase of propanil from Rohm and Haas.

Sections 271(c) and (d) of the Patent Laws did not extend the patent grant to sanction monopolization of nonstaples. Paragraph (c) merely put the doctrine of contributory infringement into statutory form, and paragraph (d) merely stated that certain activities are not misuse. Tying arrangements are not included among those specified activities.

The Court of Appeals erroneously concluded that the legislative history of the statute, although not "crystal clear," showed an intention of the Congress to so extend the patent grant. This conclusion was based primarily on the "tenor" of explanations and "telling features" and "negative implications" of remarks by one witness before a House Subcommittee, and upon the arguments of opponents. The Court should not have expanded patent rights by overruling Supreme Court decisions when the argument for such expansion was based on mere inference. It should have required a clear and certain signal from Congress. *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972).

The only clear signals from Congress were in the House and Senate Committee Reports on the statute, neither of which mentioned any intent to expand patent rights, and both of which stated that the purpose of Section 271 was "clarification and stabilization."

This Court, in the *Aro*[3] cases, relying in part on the legislative history of Section 271, specifically rejected an attempt to expand the scope of a patentee's monopoly rights. It is clear from these cases that the Court would not have sanctioned any scheme for monopolizing an un-

[3] *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336 (1961) (*Aro I*), and *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476 (1964) (*Aro II*).

patented nonstaple. Even the Court below recognized that the various opinions in these cases probably cut against its view.

The misuse being perpetrated by Rohm and Haas is the conditioning of a license under its method patent on the purchase of propanil from Rohm and Haas. If Rohm and Haas would grant royalty-bearing licenses separately from the purchase of propanil, there would be no misuse. Such a requirement is not compulsory licensing. By its present marketing scheme, Rohm and Haas has chosen to grant licenses, but only by use of a tying arrangement.

Tying arrangements have virtually no valid purpose, being inevitably used to secure a monopoly by one who has no legal basis for such a monopoly. Rohm and Haas' tying arrangement cannot be justified on the basis that it created the market for propanil. Except where specifically provided by Congress, the law does not abolish competition in newly created markets; on the contrary, competition is encouraged.

The invalidation and dedication of Monsanto's patent on propanil freed up competition in the sale of propanil. To allow Rohm and Haas to abolish this competition would do away with all the advantages of a competitive market.

The Court should not hesitate to strike down this unwarranted extension of the patent monopoly because of the unsupported allegation of an adverse effect on research and development. It is just as likely that the effect would be beneficial, in that more people would be involved in attempting to out-perform their competitors.

The public interest is at stake here, and that interest is superior to Rohm and Haas'. Reversal of the Court of Appeals' decision will assure the right to compete in the

sale of propanil, while retaining for Rohm and Haas the right to profit from the invention it has patented, if that patent is valid.

ARGUMENT

1. The Patent Monopoly Extends Only to the Invention Defined by the Patent Claims.

The effect of the decision by the Court below is to hold that by the adoption of Sections 271(c) and (d) of the Patent Laws the Congress intended to extend the scope of the patent monopoly to allow monopolization of unpatented[4] nonstaple materials, components and apparatus used in the practice of the patented invention. Such a holding is contrary to the patent law as it has existed in this country since the first statute was enacted in 1790 (1 Statutes at Large, 109). From the beginning, the *exclusionary* right extended only to the *invention* which the inventor made. And since the adoption of the Patent Act of 1836 (5 Statutes at Large, 117) applicants for patents have been required to define their inventions in patent claims. This requirement was inserted in the law "for the purpose of relieving the courts from the duty of ascertaining the exact invention of the patentee by inference and conjecture." *Keystone Bridge Co.* v. *Phoenix Iron Co.*, 5 Otto 274, 24 L.Ed. 344, 346 (1877).

In *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502, 61 L.Ed. 871, 37 S.Ct. 416 (1917), this Court analyzed the patent statutes then in effect and reaffirmed that the *exclusive* rights awarded the patentee are limited to that invention defined by the claims of his patent. 243

[4] The term "unpatented" as used herein means "not covered by the claims of the tying patent." Propanil was once "patented" in a separate patent.

U.S. at 510-514. The Court explained that the reason for this limitation was that the primary purpose of the patent laws was to benefit the public by promoting the progress of science and useful arts, the reward to inventors of exclusive rights being only of secondary importance. 243 U.S. at 510, 511. To have allowed the patentee to monopolize more than he invented would have provided the patentee with a reward greater than the benefit he gave the public.

In finding that the statutes themselves plainly limited the exclusive patent grant to the invention defined by the claims, and did not extend to the materials used in the practice of the invention, the Court noted that the meaning of the words of the statute "would not seem to be doubtful if we can avoid reading into them that which they do not really contain." 234 U.S. at 510.

The present statutes, enacted in 1952, are similarly free from doubt, and of similar effect. Thus, 35 U.S.C. Section 101 provides:

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

Section 112 requires that the patent include "one or more claims particularly pointing out and distinctly *claiming* the subject matter which the applicant regards as his *invention.*" (emphasis added).

And, Section 154 provides that such patent when obtained, "shall contain . . . a grant to the patentee, his heirs or assigns . . . of the right to exclude others from making, using or selling the *invention*. . . ." (emphasis added).

Thus, the present statutes, like those in effect at the time of the *Motion Picture* case, allow a grant only of "the right to an exclusive use of the new and useful discovery which has been made — this and nothing more." 243 U.S. at 513.

Nor did the enactment of Sections 271(c) and (d) add to this exclusive right. Paragraph (c) only puts the contributory infringement doctrine in statutory form, and paragraph (d) only specifies certain activities as not being misuse. No more than this can be found in the plain words without reading into them something which is not there. To read into Sections 271(c) and (d) that which the Court of Appeals found is to effectively nullify the limitations on the grant spelled out so explicitly in Sections 101, 112 and 154. Congress did not extend the limitations provided by these sections of the statute. They are the same today as they were in 1917, at the time of the *Motion Picture* case.

A patent for an *invention* does not take from the public anything it had before the invention; extending the patent coverage to that which is *not the invention* takes something from the public. The *invention* covered by the claims of the Rohm and Haas patent is a *process,* not a composition of matter. Rohm and Haas invented, and obtained a patent on, the process for selectively inhibiting the growth of certain plants in the manner described in the twelve claims of the patent. Rohm and Haas did not invent propanil, did not claim propanil, and, for the reasons stated in the *Motion Picture* case, still valid today, has no right to monopolize propanil:

> This construction gives to the inventor the exclusive use of just what his inventive genius has discovered. It is all that the statute provides shall be given to him and it is all that he should receive, for it is the fair as well as the statutory measure of his reward for his contribution to the public stock of knowledge.

243 U.S. at 513.

2. Since the 1917 Decision in the Motion Picture Case This Court Has Not Allowed the Use of the Contributory Infringement Doctrine to Effect a Monopoly in Unpatented Materials.

The doctrine of contributory infringement was developed by the courts as a remedy for patentees against those who contributed to or induced direct infringement by selling a part, but not the entirety, of a patented invention, to customers who directly infringed by assembling the patented whole. *See, e.g., Wallace* v. *Holmes,* 29 Fed. Cas. 74, No. 17,100 (CC Conn. 1871); *Schneider* v. *Pountney,* 21 F. 399 (CC N.J. 1884); *Snyder* v. *Bunnell,* 29 F. 47 (S.D. N.Y. 1886); *Thomson-Houston Elec. Co.* v. *Kelsey Electric Ry. Specialty Co.,* 72 F. 1016 (CC Conn. 1896); *Heaton-Peninsular Button-Fastener Co.* v. *Eureka Specialty Co.,* 77 F. 288 (6 Cir. 1896). Thus, the purpose of the doctrine was to aid in preventing direct infringement, not to extend the patent grant to allow monopolization of unpatented materials.

Howeve , in some of these cases, e.g., the *Button-Fastener* case, courts allowed patentees to use various contractual arrangements and restricted licenses to monopolize unpatented components of patented combinations and even unpatented supplies used by patented machines, reasoning that if a patent owner had the right to completely withhold his invention from the public, he could impose any condition he wished upon the use of his invention. This concept reached its zenith in *Henry* v. *A. B. Dick Co.,* 224 U.S. 1, 32 S.Ct. 364, 56 L.Ed. 645 (1912), when the Court enunciated principles which enabled a patentee to tie the right

to use a patented device to the purchase from the patentee of the supplies used by the device.

Five years later, in the *Motion Picture* case, this Court retreated from the position it took in the *Dick* case, and returned to the historical principles of the scope of patent protection, holding that a patentee could not condition the right to use a patented movie machine on the purchase of unpatented film used by the machine because the effect of such conditioning was to create a monopoly in the film. 243 U.S. at 518.

Nevertheless, some patent owners continued to try various other schemes to achieve a monopoly on unpatented materials and elements, and the Court found it necessary to repeatedly strike down such schemes. In *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27, 51 S.Ct. 334, 75 L.Ed. 819 (1931), the Court denied relief to a patent owner whose exclusive licensee sold solid carbon dioxide with an implied license to use the patented invention, but expressly prohibited the use of solid carbon dioxide purchased from others, holding that he "may not exact as the condition of a license that unpatented materials used in connection with the invention shall be purchased only from the licensor." 283 U.S. at 31.

In *Leitch Mfg. Co.* v. *Barber Co.*, 302 U.S. 458, 82 L.Ed. 371, 58 S.Ct. 288 (1938), the Court found the *Carbice* doctrine equally applicable to a situation where the only license available under a process patent was an implied license obtained by the purchase of an unpatented staple material from the patent owner, stating that "every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited." 302 U.S. at 463.

By the time *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488, 86 L.Ed. 363, 62 S.Ct. 402 (1942) was decided,

the Court had applied the evolving doctrine of the *Motion Picture*, *Carbice* and *Leitch* cases only to bar suits for contributory infringement. In *Morton Salt*, however, the Court applied the doctrine to prohibit recovery against a direct infringer. 314 U.S. at 492-494. On the same day *Morton Salt* was decided, in *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495, 86 L.Ed. 367, 62 S.Ct. 406 (1942), the Court used the word "misuse" for the first time in describing the patent owner's conduct in conditioning licenses under his patent on the purchase from him of unpatented materials. And in *B. B. Chemical* the Court for the first time considered, and rejected without comment, the argument that the misuse doctrine should be applied only in the case of attempts to monopolize *staple* materials.[5] Clearly the Court did not feel disposed, twenty-five years after the *Motion Picture* decision, to abandon the rule so clearly reasoned there that the patent monopoly is limited to the invention covered by the claims.

Nevertheless, the question was raised again, and directly met, two years later in the *Mercoid* cases, *supra*. The patents in the *Mercoid* cases covered heating systems, one element of which, in each patent, was a switch which had no use except in the patented system, and which was itself unpatented. The patent owner, Mid-Continent, granted an exclusive license to Minneapolis-Honeywell to make, use and sell, and to sublicense others to make, use and sell, the system covered by the patent. Minneapolis-Honeywell did not sell the system, but sold only the switches. Licenses to make and use systems covered by the patent were granted only with the switches purchased from Minneapolis-Honeywell. Royalty payments were based upon sales of switches.

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[5] See the synopsis of the respondent's brief at 86 L.Ed. 368, and the opinion of the lower court in *B. B. Chemical Co.* v. *Ellis*, 117 F.2d 829, 834-835 (1 Cir. 1941).

Mercoid was charged with contributory infringement because it manufactured and sold switches specially adapted for use in the patented heating system. Mercoid had been offered, but refused, a license under at least one of the patents. 320 U.S. at 683. The Court denied relief, holding that it was misuse to require those who wished to make the patented system to buy the switches from the patentee's exclusive licensee. The Court noted that the switch was a nonstaple and that, but for the misuse, Mercoid could have been enjoined as a contributory infringer. By tying the license to the unpatented switches, however, the patentee and its exclusive licensee were held to be extending the patent monopoly to that which they had not invented. 320 U.S. at 667.

The *Mercoid* decisions eliminated any doubt that the misuse doctrine applied to attempts to tie patent licenses to the sale of nonstaple elements as well as staple elements. However, the Court also commented that the result of its decision was to limit substantially the doctrine of contributory infringement and to raise the question as to whether any residuum may have been left. 320 U.S. at 669. This comment led many lawyers, and some courts, before 1952, to question whether the law of contributory infringement still existed. *See, Landis Machinery Co.* v. *Chaso Tool Co.,* 141 F.2d 800, 801 (6 Cir. 1944); *Gray Tool Co.* v. *Humble Oil & Refg. Co.,* 186 F.2d 365, 368-369 (5 Cir. 1951). One court even held that the very act of bringing a suit for contributory infringement was a misuse. *Stroco Products, Inc.* v. *Mullenbach,* 67 U.S.P.Q. 168 (S.D. Calif. 1944).

Other courts, however, during this same period, had no difficulty in recognizing the enforceability of patents against contributory infringers when the patents were not used to monopolize unpatented materials or elements, *see, e.g., Florence-Mayo Nuway Co.* v. *Hardy,* 168 F.2d 778, 784-785

(4 Cir. 1948) and *Harris v. National Machine Works, Inc.,* 171 F.2d 85 (10 Cir. 1948), and the applicability of the misuse doctrine when the patent owner was conditioning a license under his patent on the purchase of unpatented elements, *see, e.g. Standard Register Co.* v. *American Sales Book Co.,* 148 F.2d 612 (2 Cir. 1945), and *Lincoln Electric Co.* v. *Linde Air Products Co.,* 171 F.2d 223 (6 Cir. 1948).

Undoubtedly, during the 1944-1952 period there was "considerable doubt and confusion as to the scope of contributory infringement,"[6] but the rule of the *Motion Picture*

[6] Reports of the House and Senate Committees on the Judiciary on Section 271, H.R. Rep. No. 1923, 82d Cong., 2d Sess. 9 (1952), and S. Rep. No. 1979, 82d Cong., 2d Sess. 8 (1952). These reports each state, with respect to Section 271:

> Section 271, paragraph (a) is a declaration of what constitutes infringement. There is no declaration of what constitutes infringement in the present statute. It is not actually necessary because the granting clause creates certain exclusive rights and infringement would be any violation of those rights.
>
> Paragraphs (b), (c) and (d) relate to the subject referred to as contributory infringement. The doctrine of contributory infringement has been part of our law for about 80 years. It has been applied to enjoin those who sought to cause infringement by supplying someone else with the means and directions for infringing a patent. One who makes a special device constituting the heart of a patented machine and supplies it to others with directions (specific or implied) to complete the machine is obviously appropriating the benefit of the patented invention. It is for this reason that the doctrine of contributory infringement, which prevents appropriating another man's patented invention, has been characterized as "an expression both of law and morals." Considerable doubt and confusion as to the scope of contributory infringement has resulted from a number of decisions of the courts in recent years. The purpose of this section is to codify in statutory form principles of contributory infringement and at the same time eliminate this doubt and confusion. Paragraph (b) recites in broad terms that one who aids and abets an infringement is likewise an infringer. The principle of contributory infringement is set forth in the provisions of the next paragraph which is concerned with the usual situation in which contributory infringement arises. This latter paragraph is much more restrictive than many

case, limiting the scope of the patent monopoly to the invention defined by the claims and forbidding the conditioning of the right to use the invention on the purchase of unpatented materials, was consistently recognized and followed, whether the materials were staples or nonstaples.

3. Congress Did Not Intend Section 271(d) to Legitimize Tying Arrangements.

Finding each of the parties' conflicting readings of the statute to be plausible (A. 144) the Court below turned to the legislative history. The Court found this history "not crystal clear" (A. 174). Nevertheless, relying in large part on the "tenor" of one witness' explanations (A. 167), and on the "telling features" (A. 168) and "negative implications" (A. 170) of his remarks, as well as the testimony of opponents of the legislation (A. 170), it held that the weight of it favored Rohm and Haas' position that it was acting within its rights under the statute in using its patent to effect a monopoly in propanil.

In so concluding, the Court of Appeals failed to heed this Court's warning in *Deepsouth, supra,* in which the intent of Congress in enacting Section 271 was under consideration. This Court made it clear that, in view of "this Nation's historical antipathy to monopoly and of repeated congressional efforts to preserve and foster competition," it

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proponents of contributory infringement believe should be the case. The sale of a component of a patented machine, etc., must constitute a material part of the invention and must be known to be especially made or especially adapted for use in the infringement before there can be contributory infringement, and likewise the sale of staple articles of commerce suitable for non-infringing use does not constitute contributory infringement. The last paragraph of this section provides that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent. These paragraphs have as their main purpose clarification and stabilization.

"should not expand patent rights by overruling or modifying our prior cases construing the patent statutes, unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language." 406 U.S. at 530, 531. The Court stated that it "would require a clear and certain signal from Congress" before it would approve any broadening of the patent privilege. *Id.* In so stating, the Court was not enunciating a new doctrine or one limited to the patent laws, but was following the long established rule that "It will not be inferred that the legislature, in revising and consolidating the laws, intended to change their policy, unless such an intention be clearly expressed." *United States* v. *Ryder,* 110 U.S. 729, 740, 28 L.Ed. 308, 312, (1884), cited and followed in *Muniz* v. *Hoffman,* 422 U.S. 454, 470, 45 L.Ed. 2d 319, 331, 95 S.Ct. 2178 (1975). Furthermore, the testimony of opponents to legislation is not to be relied upon in ascertaining the intention of Congress. *See NLRB* v. *Fruit & Vegetable Packers,* 377 U.S. 58, 66, 12 L.Ed. 2d 129, 84 S.Ct. 1063 (1964).

The only clear expression of congressional intent that can be gleaned from the legislative history of Sections 271(c) and (d) is that of clarifying the law of contributory infringement. *See, e.g.,* the House and Senate Committee Reports, *supra* note 6. There certainly is no clear expression of an intent to expand the patent monopoly to cover unpatented materials, or to allow any kind of tying arrangement, or to diminish the scope of the antitrust laws. Yet these are the effects of the rule adopted by the Court of Appeals.

The legislative history of the statutes includes little that is pertinent in the way of floor discussion. Such as there is supports Petitioners' position that the statutes were not intended to make any changes in the law. During

the Senate debate Senator McCarran, Chairman of the Judiciary Committee, when asked if the Patent Act changed the law or merely codified it, replied, "It codifies the present patent laws." 98 Cong. Rec. 9323, 82nd Cong., 2d Sess., July 4, 1952. This statement was relied upon by this Court in *Deepsouth,* 406 U.S. 530, note 10, and in *Aro II,* 377 U.S. 485, note 6, to support its conclusion that Section 271 was not intended to change the law.

The Court of Appeals, however, found Senator McCarran's statement to be less than compelling (A. 164-165), and turned its attention instead to the transcripts of Hearings before three House subcommittees in 1948, 1949 and 1951.[7] It is noteworthy that these are three *different* subcommittees; only four members of the 1951 subcommittee were on the 1949 subcommittee, and only one of the members of the 1949 and 1951 subcommittees was on the 1948 subcommittee.

The Court of Appeals' conclusion was based primarily on implications it perceived from Mr. Giles S. Rich's testimony as explaining the purpose of Sections 271(c) and (d). However, the only actual statement Mr. Rich made about the purpose of the statute to the 1951 subcommittee, whose report resulted in the statute, is found at pp. 161-162 of the 1951 Hearings. Here he made reference to the holding of this Court in the *Mercoid* cases that where there is a conflict between the contributory in-

[7] Hearings before Subcomm.. on Patents, Trademarks and Copyrights of the Comm. on the Judiciary, House of Representatives, 80th Cong., 2nd Sess. on H.R. 5988 (hereinafter 1948 Hearings); Hearings before Subcomm. No. 4 of the Comm. on the Judiciary, House of Representatives, 81st Cong., 1st Sess. on H.R. 3866 (hereinafter 1949 Hearings); and Hearings on H.R. 3760 before Subcomm. No. 3 of the House Comm. on the Judiciary, 82nd Cong., 1st Sess. 1951 (hereinafter 1951 Hearings). Pertinent portions of the 1951 Hearings have been reproduced in the Appendix to the Petition for Writ of Certiorari.

fringement doctrine and the misuse doctrine the misuse doctrine must prevail, and to the fact that some courts say that "any effort whatsoever to enforce a patent against a contributory infringer is in itself misuse." Then he said "that to put any measure of contributory infringement into the law you must, to that extent and to that extent only, specifically make exceptions to the misuse doctrine, and that is the purpose of paragraph (d)."

The only possible meaning that can be derived from this is that the purpose of the statute was to reverse the holdings that "any effort whatever to enforce a patent against a contributory infringer is in itself misuse." Certainly he did not express a purpose to expand the patent monopoly to include nonstaple elements.

The only testimony in the 1951 Hearings which specifically discusses the effect of the statute on conduct such as that at issue here is that initiated by the contention of the Department of Justice that the statute would immunize such conduct. The Court of Appeals erroneously concluded from the discussion which this contention engendered that Mr. Rich and the subcommittee, and therefore Congress, intended the statute to have that effect.[8] (A. 170-174).

However, Congressman Crumpacker insisted that the Department representative, Mr. Fugate, was reading the language backwards. 1951 Hearings at 167. The ensuing colloquy also brought in Mr. Rich to explain his position. The result of this is Mr. Rich's agreeing with Mr. Crumpacker that paragraph (d) would not prevent a holding of misuse where a patentee was "trying to gain a limited monopoly of unpatented articles." 1951 Hearings at 173-174.

[8] This discussion is analyzed in detail at pp. 4-6 of Reply Brief for Petitioners, filed in support of the Petition for Writ of Certiorari, and for the sake of brevity will not be repeated here.

Thus, even though the Department of Justice originally contended that Section 271(d) would allow tying arrangements and that Mr. Rich so construed it, the ultimate result was that Mr. Crumpacker rejected this construction, Mr. Rich disavowed it, and the Department of Justice dropped its contention.[9]

Any doubt that might remain as to whether the Subcommittee members intended to effect such a substantial change is dispelled by the Committee Reports, *supra,* note 6, which unequivocally state that the main purpose of the statutes is clarification and stabilization, with no mention of expansion of the patent grant.

The Court of Appeals' conclusion as to the intent of Congress was based on such things as the "tenor" of Mr. Rich's explanations, and "telling features" and "negative implications" of his remarks, and arguments of opponents of the act, from a legislative history which it admitted was "not crystal clear," disregarding the Committee Reports and rejecting Senate floor comment which this Court had relied upon in construing the same statute, in the face of two diametrically opposed "plausible" readings of the statute. The Court of Appeals even recognized that various commentators had expressed a contrary view (A. 144, 145, note 4).

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[9] It does not appear from the transcript that anyone brought to the Subcommittee's attention the statement made by Mr. Rich in the 1949 Hearings (p. 68) which seemed to indicate that it was his intention to do away with the misuse doctrine insofar as it applied to nonstaples. Nor is there any indication that the Subcommittee members, or any other member of Congress, was made aware of Mr. Rich's view, expressed in an article published two years later, that Section 271 changed the test for what is unpatented, nor of his suggestion that nonstaples are now within the scope of the patent. See Rich, *Infringement Under Section 271 of the Patent Act of 1952,* 35 J. Pat. Off. Soc. 476, 499-500 (1953).

Despite this quite obvious lack of a "clear and certain signal," the Court insisted upon finding that Congress had partially overturned a doctrine which had been in effect since the *Motion Picture* case, 63 years ago. More than this is required to find that Congress intended to effect such a change. *Deepsouth, supra,* 406 U.S. 531.

4. The Court of Appeals' Expansion of the Scope of the Patent Privilege is Contrary to This Court's Rulings Since 1952.

After reviewing the statute's legislative history, the Court of Appeals went on to review this Court's decisions since the enactment of Section 271 which bear on the issues. It concluded that the *Aro* cases "probably cut against" its view, but distinguished the present case on its facts, and declined to rely on "general statements" in other cases[10] "containing ringing endorsements of patent misuse theory concerning the proper scope of a patent." (A. 180-181).

However, these decisions of this Court in fact support Petitioners' position on the issue in this case, and are in complete harmony with the *Motion Picture* rule against enlarging the patent monopoly without express approval by Congress.

This Court, in the *Aro* cases, made it very clear that it still considers that the use of a patent to monopolize unpatented nonstaple components is illegal. In *Aro I,* on the authority of *Mercoid,* the Court rejected the argument that patent

[10] *Deepsouth Packing Co.* v. *Laitram Corp.,* 406 U.S. 518, 92 S.Ct. 1700, 32 L.Ed.2d 273 (1972), *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation,* 402 U.S. 313, 91 S.Ct. 1434, 28 L.Ed.2d 788 (1971), and *Zenith Radio Corp.* v. *Hazeltine Research, Inc.,* 395 U.S. 100, 89 S.Ct. 1562, 23 L.Ed.2d 129 (1969).

protection should be extended to the "essential" or "distinguishing" part of the patented combination, stating:

> We cannot agree. For if anything is settled in the patent law, it is that the combination patent covers only the totality of the elements in the claim and that no element, separately viewed, is within the grant. See the *Mercoid* cases *supra* (320 U.S. at 667, 320 U.S. at 684). The basic fallacy in respondent's position is that it requires the ascribing to one element of the patented combination the status of patented invention in itself. Yet this Court has made it clear in the two *Mercoid* cases that there is no legally recognizable or protected "essential" element, "gist" or "heart" of the invention in a combination patent.

365 U.S. at 344-345.

In his concurring opinion in *Aro I,* Justice Black, in reference to Section 271, stated:

> The language and history of that Act show plainly: (1) that Congress wanted to continue in force, *but not expand, the judge-made doctrine of contributory infringement* under which a person who knowingly aids, encourages or abets the direct infringement of a patent is to be held liable as a contributory infringer; (2) that Congress did not want patentees to be barred from prosecuting their claims for direct infringement merely because they exercised their right to assert a claim in or out of court for contributory infringement; (3) *that the long-existing scope of a patentee's monopoly rights was not to be expanded beyond what it had always been, that is, the exclusive right to make, use or sell a patented invention during the life of the patent* (emphasis added).

365 U.S. at 347-350.

In referring specifically to Section 271(d), Justice Black stated:

> This provision was designed specifically to prevent the *Mercoid* case from being interpreted to mean that any effort to enforce a patent against a contributory infringer in itself constitutes a forfeiture of patent rights.

Id. at 349, note 4.

In *Aro II* the Court found Aro guilty of contributory infringement, but applied the doctrine of patent misuse to deny relief to the patentee. The patentee had agreed to license Ford and its customers to make, use and sell the patented combination, but "excepting replacements" unless these were provided by Ford. 377 U.S. at 494. With respect to this agreement the Court stated:

> We think the agreement's attempt to reserve rights in connection with future sales of replacement fabrics was invalid . . . . The . . . provisions in the agreement, purporting to restrict the right of use and repair by prohibiting fabric replacement unless done with fabrics purchased from Ford or some other licensee, stand condemned by a long line of this Court's decisions delimiting the scope of the patent grant . . . . In particular, [the patentee] cannot impose conditions concerning the unpatented supplies, ancillary materials, or components with which the use is to be effected.

377 U.S. at 496, 497, citing *Carbice* and *Mercoid II.*

The agreement condemned was a tying arrangement; the license to make, sell and use the patented combination was conditioned on the purchase of nonstaple replacement fabrics from Ford. Although not calling this agreement "misuse," the Court refused to enforce the restriction.

The Court of Appeals considered the *Aro* opinions as not controlling the result in this case because of what it perceived as differing policies involved in protecting com-

petition in a market for replacement parts as opposed to a "primary use" market like that for propanil. However, there is nothing in the statute, nor in its legislative history, nor in any of the *Aro* opinions, nor in any other case, to support such a distinction or to provide a basis for such a limitation of the doctrine of patent misuse.

Although the specific question, of whether Section 271(d) overruled the *Mercoid* decisions forbidding use of a patent to tie unpatented nonstaples, was not presented to the Court in the *Aro* cases,[11] it is plain that the Court would have struck down any scheme by the patentee for monopolizing unpatented nonstaples used with a patented machine or method by conditioning licenses under the patent on the purchase of the nonstaple from him or his licensee. To have sanctioned the exercise of such exclusive rights in an unpatented product would have been to expand the long-existing scope of the exclusive rights conferred by the patent, but that, as stated by Justice Black in *Aro I*, was precisely what had not been provided for by Section 271. Although Justice Whittaker's opinion for the Court in *Aro I* contains no reference to Section 271(d), it was in full accord that a patent does not grant exclusive rights in a nonstaple, however essential it may be to the patented combination, and however difficult it may be for a patentee to profit from his invention.

This doctrine is also made clear in the other cases decided by this Court since the enactment of Section 271, which the Court of Appeals declined to follow. In *United States* v. *Loew's Inc.*, 371 U.S. 38, 9 L.Ed.2d 11, 83 S.Ct. 97 (1962), this Court cited *Mercoid* and like cases in support of its reiteration of the misuse doctrine:

> These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles.

371 U.S. at 46.

In *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 23 L.Ed.2d 129, 89 S.Ct. 1562 (1969), the Court stated:

> Among other restrictions on him [the patentee] may not condition the right to use his patent on the licensee's agreement to purchase, use, or sell, or not to purchase, use, or sell, another article of commerce not within the scope of his patent monopoly.

395 U.S. at 136.

In *Deepsouth, supra,* the Court held that a defendant who exported unpatented parts of a patented combination was not guilty of infringement. Citing *Mercoid,* the Court premised its decision on the "unassailable" rule that "a patent on a combination is a patent on the assembled or functioning whole, not on the separate parts." 406 U.S. at 528. The separate parts here were clearly "nonstaple," being specially designed to construct the patented equipment.

In *Blonder-Tongue Labs, Inc.* v. *University of Ill. Foundation,* 402 U.S. 313, 28 L.Ed. 2d 788, 91 S.Ct. 1434 (1971), the Court, while "recognizing the patent system's desirable stimulus to invention," cited *Mercoid* as one of a "series of decisions in which the Court has condemned attempts to broaden the physical or temporal scope of the patent monopoly." 402 U.S. at 343.

In each of these cases the Court, in the most unequivocal terms, reiterated the long-standing prohibition against expanding the patent grant to allow monopolizing anything other than the invention covered by the patent claims.

[11] The misuse defense had been abandoned. 377 U.S. at 491, note 9.

The Court of Appeals' decision, leading to a contrary result, cannot be justified on any rational basis.

5. The Court of Appeals' Interpretation is Not Necessary to Give Meaning to Section 271(d).

The Court of Appeals also reasoned (A. 174-176) that the combined effect of (1), (2) and (3) of Section 271(d) necessarily gives the patentee the right to reserve to itself the sale of nonstaples used substantially only in the patented invention, because otherwise the right to grant licenses under (2) would be rendered worthless. The argument is that no one would pay a royalty for a license if the patent owner could not stop others from selling the nonstaple.

This argument overlooks the varied ways in which licensing rights can be used, and misconstrues the issue here. The licensing right is made fully effective if the patentee grants non-discriminatory licenses separate from the sale of the unpatented material. In the present case, if Rohm and Haas offered such licenses to users, or applicators, or competitors who sell propanil, separate from the purchase of propanil, Rohm and Haas would be able to (1) sell propanil, (2) license others to sell propanil and (3) sue contributory infringers. Petitioners and others would be willing to pay a royalty for such a license. The contributory infringers would be those who insisted on selling propanil to unlicensed users without being licensed themselves. Paragraph (d), in such a situation, is fully effective to protect the patent owner from a misuse defense.

The Court of Appeals recognized this as "an attractive possibility" because "It allows a patentee economically to market his invention, yet preserves competition in propanil, which is, after all, not patented." (A.177, note 27).

However, the Court rejected this reasoning as not discernable from the statute, and because it believed that "[a] general licensing obligation is foreign to a statutory scheme in which patentees are free to suppress entirely or reserve for themselves their inventions."

There are several answers to this. First, Petitioners do not contend that there is a "general licensing obligation." Rohm and Haas itself has chosen to license its invention when it sells the unpatented material with an implied patent license. If it did not *already* grant licenses there would be no misuse issue. Having freely determined that it will grant licenses, it must do so in a legal manner.

Secondly, the fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use. *United States* v. *Masonite Corp.,* 316 U.S. 265, 277, 86 L.Ed. 1461, 1475 (1942).

Nor is compulsory licensing against public policy, as intimated by the Court of Appeals; both Congress and the courts have approved compulsory licensing as a means of achieving desirable public policy goals. Compulsory licensing is a feature of the Copyright Law of the United States, 17 U.S.C. § 101 et seq. [see § 115]; the Air Pollution Prevention and Control Act (1970, as amended 1974), 42 U.S.C., § 1857 et seq. [see § 1857h-6. "Mandatory licensing"]; and the Plant Variety Protection Act (1970), 7 U.S.C. § 2321 et seq. [see § 2404, "Public interest in wide usage"], for example. Furthermore, this Court has held compulsory licenses to be a proper remedy where patent abuses have been proven. *Besser Mfg. Co.* v. *United States,* 343 U.S. 444, 96 L.Ed. 1063, 72 S.Ct. 838 (1952); *United States* v. *Glaxo Group Ltd.,* 410 U.S. 52, 35 L.Ed.2d 104, 93 S.Ct. 861 (1973).

Finally, it is to be observed that if application of the doctrine of misuse can be said to create a form of compulsory licensing, then compulsory licensing has existed ever since the *Motion Picture* case.

The Court of Appeals also overlooked the fact that there are many ways other than that chosen by Rohm and Haas to exploit a method patent. Thus:

1. Rohm and Haas could grant to other propanil producers the right to grant licenses to purchasers of propanil, with a royalty to be paid to Rohm and Haas by the other propanil producers.

2. Rohm & Haas could license rice farmers directly to practice the patented method, charging a royalty based on acreage or volume of propanil used. This could be easily effected by the commonly used "label license," which states that a part of the purchase price is patent royalty, and that licenses to use propanil purchased from others are available for the same royalty.[12]

3. Rohm and Haas could license persons who are sprayers or applicators to practice the method, charging a royalty based on the volume of propanil used or acreage of crops sprayed.

4. Rohm and Haas could operate rice farms, contract the spraying and not license anyone other than the spraying contractor.

5. Rohm and Haas could practice the method itself, by spraying the rice fields, and not license anyone.

[12] An unequal or discriminatory royalty would also run afoul of the misuse doctrine. See *Ansul Co.* v. *Uniroyal, Inc.*, 448 F.2d 872, 882 note 4 (2 Cir. 1971); *Rex Chainbelt, Inc.* v. *Harco Products, Inc.*, 512 F.2d 993, 1002 note 3a (9 Cir. 1975).

Each of these ways would be a legitimate exploitation by Rohm and Haas of its method patent. If Rohm and Haas were to use its patent in any of these legitimate ways it could sell propanil, license others to sell it and sue contributory infringers — all the things allowed by Section 271(d) — and it would not be guilty of misuse.

6. Tying Arrangements are No Less Pernicious Since 1952 Than Before.

Tying arrangements have been against public policy at least since the adoption of Section 3 of the Clayton Act, 15 U.S.C. § 14, in 1914 and, as we have shown, this Court has from an early date condemned tying arrangements like that presently before the Court. As stated in *United States* v. *Loew's, Inc.*, 371 U.S. 38, 44, 9 L.Ed.2d 11, 17-18, 83 S.Ct. 97 (1962), "This Court has recognized that '[t]ying agreements serve hardly any purpose beyond the suppression of competition,'" citing *Standard Oil Co.* v. *United States*, 337 U.S. 293, 305, 306, 93 L.Ed. 1371, 1382, 69 S.Ct. 1051 (1949). Tying arrangements are inevitably used to secure a limited monopoly at the behest of one who has no legal basis for such a monopoly. Indeed, tying arrangements

> deny competitors free access to the market for the tied product, not because the party imposing the tying requirements has a better product or a lower price but because of his power or leverage in another market. At the same time buyers are forced to forego their free choice between competing products. For these reasons "tying agreements fare harshly under the laws forbidding restraints of trade." *Times-Picayune Publishing Co.* v. *United States*, 345 U.S. 594, 606, 97 L.Ed. 1277, 1288, 73 S.Ct. 872.

Northern Pacific Rwy. Co. v. *United States*, 356 U.S. 1, 6, 2 L.Ed.2d 545, 550, 78 S.Ct. 514 (1958). They are equally

reprehensible whether the tied or the tying commodity is patented or unpatented, whether dealing in staples or non-staples. *See United States* v. *Loew's, Inc.,* 371 U.S. at 44-46; *International Salt Co.* v. *United States,* 332 U.S. 392, 395-396, 92 L.Ed. 20, 25-26, 68 S.Ct. 12 (1947).

In *Mercoid II* it was held that "the effort here made to control competition in this unpatented device plainly violates the antitrust laws." 320 U.S. at 684. Section 271(d) of the Patent Laws provides that patent owners shall not be deemed guilty of "illegal extension of the patent right" by reason of having done one or more of the enumerated things. By construing this statute to allow the patent owner to monopolize the unpatented material the Court of Appeals has in effect said that Congress intended to reverse the *Mercoid II* holding, thereby diminishing the scope of the antitrust laws.

In doing so, however, the Court failed to deal with the objectives of either the patent or the antitrust laws. The Court made no effort to determine whether its decision would foster invention and innovation or have a beneficial or adverse effect on competition. The closest the Court came to such consideration was its recognition that requiring Rohm and Haas to grant alternative licenses is "an attractive possibility" because it allows the patentee to market his invention, yet preserves competition in the unpatented material (A. 177, note 27).

The Rohm and Haas patent claims define an invention which uses propanil. Under the patent laws Rohm and Haas is entitled to a seventeen year monopoly on that invention, if the patent is valid. The monopoly which is thus conferred is the reward which Rohm and Haas received for its research and development, its efforts at invention and innovation. The purposes of the patent statute are fulfilled by this reward.

As this Court did in *Deepsouth,* the Court of Appeals should have considered Rohm and Haas' claim "in light of this Nation's historical antipathy to monopoly and of repeated congressional efforts to preserve and foster competition." 406 U.S. at 530. The Court's quotation there is equally applicable here:

> [I]n rewarding useful invention, the "rights and welfare of the community must be fairly dealt with and effectually guarded." *Kendall* v. *Winsor,* 21 How. 322, 329, 16 L.Ed. 165, 168 (1859).

406 U.S. at 530, 531.

Prior to the issue of the Rohm and Haas patent anyone was free to sell propanil, this freedom having resulted from the invalidation, and subsequent dedication to the public, of Monsanto's patent on propanil. Rohm and Haas now seeks to take this right from the public by means of a tying arrangement. To allow this would not be dealing fairly with the right of the community to freely engage in competition in the marketing of unpatented materials.

7. The Public Interest is Best Served by Limiting the Patent Monopoly to the Invention Covered by the Patent Claims.

The decision below, if sustained, will have an adverse effect not only upon Petitioners herein, but also upon the purchasers and users of propanil, such as the rice-producing farmers and the consuming public. The Fifth Circuit's decision permits Rohm and Haas to monopolize sales of propanil, an unpatented and unpatentable commodity, for so long as it chooses during the life of its method patent. At present, Rohm and Haas refuses to license anyone else to make and sell propanil, and there is no reason to believe its policy will change in the future. As a result, the market for propanil is removed from competition from producers of propanil such as Petitioners.

All the benefits that flow from the unrestrained interaction of competitive forces, such as attainment of the lowest price and the highest quality and the overall optimum allocation of economic resources, are thereby swept from the propanil market. Purchasers and users of propanil will be unable to select, from among several alternative sources of supply, that source which offers them the best product at the lowest price, on terms and conditions best suited to their businesses. Rohm and Haas will thus be able to set for propanil a price higher than any it or any licensed competitor could expect to establish in a competitive market, a price totally unrelated to any royalty it could expect to receive from licensed users or suppliers under legitimate licensing arrangements under its method patent. For the rice-producing farmer, for example, this will result in increased costs and decreased profitability of producing rice, which will eventually be reflected in increased costs to the consuming public. From the rice farmer's standpoint, the Fifth Circuit's decision also poses the threat that his supply of much-needed propanil could be interrupted should Rohm and Haas, as the sole supplier, for some reason become unable to meet the demand for propanil. Such an interruption could take its toll in the form of ruined or diminished rice crops.

Rohm and Haas has argued that it is important for the owner of a process patent to be able to monopolize nonstaples in order to provide an economic incentive to develop new uses for chemicals. It seems self-evident that chemical manufacturing companies such as Rohm and Haas have an economic incentive in developing new uses for chemicals that they manufacture, whether the chemicals are staples or nonstaples. A source relied upon by amicus supporting

Rohm and Haas[13] has reported that a company must screen 7,000 compounds to find one commercially successful agricultural herbicide. There necessarily had to be many, many staple chemicals among this group of 7,000 compounds. Certainly, there is no basis for stating that just nonstaple chemicals will be screened in an attempt to find commercially successful agricultural herbicides. Indeed, it seems no more likely that one would experiment with old, useless chemicals than with old chemicals having other uses or with entirely new chemicals, in order to discover a desired chemical property.

There is no reasonable basis for assuming that forbidding monopolization of unpatented chemicals will have an adverse effect upon research and development. On the contrary,

> [T]here is a consensus among those who have considered the question that, in view of the substantial uncertainties inherent in the process of developing and patenting a new invention, any incremental increase in patentee income that might result from permitting licensing schemes that would otherwise violate the antitrust laws would be unlikely to affect a patentee's initial decision to invest in innovative activity. P. Areeda, [Antitrust Analysis], Par. 404(f) at 429 [2d ed. 1974]; Turner, [The Patent System and Competitive Policy], 44 N.Y.U.L. Rev. at 458-460, 463 (1969); Gibbons, Price Fixing in Patent Licenses and the Antitrust Laws, 51 U. Va. L. Rev. 273, 276-77 (1965); Furth, Price-Restrictive Patent Licenses Under the Sherman Act, 71 Harv. L. Rev. 815, 829 & n. 35 (1958).

Mannington Mills, Inc. v. *Congoleum Industries, Inc.*, 203 U.S.P.Q. 81, 91, ... F.2d ..... (3 Cir. 1979). Without

[13] A. Wechsler et al, *Evaluation of the Possible Impact of Pesticide Legislation on Research and Development Activities of Pesticide Manufacturers* (1975) (Environmental Protection Agency publication EPA-540/9 — 75-018).

such monopolization, the law still offers the owner of a method patent the exclusive right to use the method, or alternatively an opportunity to grant licenses on a reasonable non-discriminatory basis to others and thus reap its reward properly.

Actually, it is more reasonable to assume that forbidding such monopolization may foster research and development. Those who wish to compete in the marketing of the unpatented material will be encouraged to develop more economical processes for making the material, or more desirable formulations of the material. This could result in lower cost to users and better performance from the patented process.

The public interest is at stake here. Rohm and Haas seeks to take something of value from the public, namely competition in the sale of an unpatented chemical and all of the advantages to the public flowing from such competition. This does not mean that the method patent is rendered worthless, but to the contrary, Rohm and Haas can sell propanil, it can collect reasonable non-discriminatory royalties from the manufacturers of the chemical or the users of the method, and it can also bring suits to stop contributory infringers who have refused to take a reasonable non-discriminatory license under the patent. Alternatively, it can use one of the other ways described, *supra,* Section 5, to exploit its method patent. Thus, Rohm and Haas may have its "reward" based upon its method patent, but it cannot have an additional reward of a monopoly in an unpatented chemical.

The Court's decision in this case will have an enormous effect upon competition in the United States. Probably most patents cover combinations or processes which utilize non-staple elements, sub-combinations or materials which form a material part of the invention and have no substantial

use outside the invention. In many cases the patent owner finds it more convenient or profitable to market less than the whole of the invention. If the Court of Appeals' decision is affirmed, the monopoly afforded these patent owners by their patents will have been extended to include these unpatented elements, subcombinations and materials.

8. Conclusion

For the reasons stated herein, in the Petition, and in the Amicus briefs filed in support of the Petition, the decision of the Court of Appeals should be reversed.

Respectfully submitted,

.....

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February 21, 1980

Supreme Court, U.S.
FILED
MAR 21 1980
ALEXANDER L. STEVAS, JR., CLERK

IN THE

Supreme Court of the United States

October Term, 1979.

No. 79-669.

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION, and
CRYSTAL CHEMICAL COMPANY,

Petitioners,

v.

ROHM AND HAAS COMPANY,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit.

BRIEF FOR THE RESPONDENT, ROHM AND HAAS COMPANY.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1979.

No. 79-669.

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, and CRYSTAL CHEMICAL COMPANY,

Petitioners,

v.

ROHM AND HAAS COMPANY,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT.

BRIEF FOR THE RESPONDENT, ROHM AND HAAS COMPANY.

OPINIONS BELOW.

The opinion of the United States District Court for the Southern District of Texas on cross-motions for summary judgment (A. 67-110) is reported at 191 USPQ 691, and its Supplemental Opinion (A. 122-134) is unreported. The opinion of the Fifth Circuit Court of Appeals reversing the District Court (A. 139-182) is reported at 599 F. 2d 685.

JURISDICTION.

The opinion and judgment below were entered on July 30, 1979. The petition for a writ of certiorari was filed on October 24, 1979. It was granted on January 7, 1980. The jurisdiction of this Court is invoked under 28 U. S. C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED.

Constitution of the United States, Article I, Section 8, Clause 8:

> The Congress shall have power . . .
>
> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

The petition primarily involves the construction of certain provisions of the 1952 Patent Act relative to active inducement of infringement, contributory infringement and patent misuse, 35 U. S. C. § 271:

> SECTION 271. *Infringement of patent*
>
> (a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.
>
> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> (c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.
>
> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

Other sections of Title 35, United States Code:

> SECTION 100. *Definitions*
>
> * * * (b) The term "process" means process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.
>
> SECTION 154. *Contents and term of patent*
>
> Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of issue fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States,

referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

QUESTION PRESENTED.

Whether § 271(d) of the 1952 Patent Act, by its express language and as interpreted in light of its legislative history, requires that the respondent owner of a process patent who:

> (a) sells an unpatented, nonstaple chemical that is material and essential to practicing the patented process and has no other commercial use, and
>
> (b) brings an action for active inducement of infringement and for contributory infringement against the unlicensed defendant-petitioners, who admittedly sell the same nonstaple chemical with instructions for infringing the patent to others who in fact infringe,

must submit to compulsory licensing of its patent in order to avoid misuse or an illegal extension of the patent right?

STATEMENT.

A. The Complaint.

Rohm and Haas' amended complant (A. 1-7) charged defendants, petitioners herein, with contributorily infringing and actively inducing their customers to infringe its United States Patent No. 3,816,092 (hereinafter the "Wilson patent"). This patent (Exhibits Appendix 1-5) describes and claims a method of applying a chemical compound, 3,4-dichloropropionanilide (hereinafter "propanil"), to weeds and established crops such as rice so as to inhibit selectively the growth of the weeds without adversely affecting the crop.

B. Propanil—An Unpatented, Nonstaple Article.

Propanil, the essential ingredient of the patented method, is used in the patented process by area-wide spraying over both the crops and weeds, for it is a selective (destroys weeds without harming crops), post-emergence (applied after plants have emerged from the soil) herbicide. Propanil itself is not patented. It was a useless laboratory curiosity for at least fifty years until Rohm and Haas made the invention in suit, which for the first time employed propanil to the benefit of the public. Rohm and Haas' invention was a major contribution to agricultural science. Propanil has virtually eliminated the need for hand weeding and deep water flooding of rice, enabling growers to operate more efficiently and at substantially reduced costs. Consequently, rice is made available to consumers in greater abundance and at prices lower than would otherwise be possible.

Propanil itself was held to be unpatentable in *Monsanto Company v. Rohm and Haas Company,* 312 F. Supp. 778 (E. D. Pa. 1970), *aff'd* 456 F. 2d 592 (3rd Cir.), *cert. den.* 407 U. S. 934 (1972), in which Monsanto's product patent on propanil was held invalid. In invalidating Monsanto's patent, the court found that propanil had been implicitly described by publications dated as early as 1902, but it further held that the use of propanil as a selective post-emergence herbicide "was not revealed or in any way suggested in the prior art" (312 F. Supp. 801, finding 49). Plainly, the Department of Justice is in error in asserting that propanil was "invented" by Monsanto in 1954-55 and implying that the claimed herbicidal activity was discovered by Monsanto (JB 2-3 note 1).[1]

1. "JB" followed by a page number refers to the Justice Department's brief, an uncorrected page proof of which was served February 29, 1980, eight days after it was required to be filed by the Rules of this Court. The brief itself was not filed until March

The court below held that propanil is not a staple article or commodity of commerce and that it has no substantial noninfringing uses (A. 140-141). As defined by law, "staple" means a commodity or product with substantial uses apart from the patented invention, and "nonstaple" denotes a product lacking substantial uses other than infringing uses (A. 141-142). Petitioners admit that propanil is a nonstaple (see e.g., petition for certiorari, pp. 2, 6; and PB 6).

Because there was no prior commercial use or manufacture of propanil and it was of no benefit to mankind, Rohm and Haas' invention created a market for this useless laboratory curiosity and was of great benefit to rice farmers and the public generally. It also spawned imitation by petitioners, who promptly capitalized on Rohm and Haas' costly and extensive research efforts and invention without having exerted a whit of inventive activity on their own. Similarly, petitioners spent no funds in obtaining the requisite government approval to sell propanil. They merely notified the United States Department of Agriculture that they wished to rely on the Rohm and Haas data and were permitted to do so without expense or effort.

C. Respondent Rohm and Haas' Sale of Propanil.

Rohm and Haas manufactures propanil and sells it in containers bearing instructions for utilizing it in performing the process of the Wilson patent. By operation of law, as found by the court below (A. 140, 176-177) and

1. (Cont'd.)
4, 1980. The Wilson patent issued to Rohm and Haas as the result of an interference proceeding between Rohm and Haas and Monsanto (Huffman) in which the Patent Office decided that Wilson (not Huffman) was the first inventor of the process claimed; "PB" followed by a page number refers to Petitioners' Brief on the merits filed February 20, 1980.

as conceded by petitioners (PB 5), purchasers from Rohm and Haas thus acquire the right to use propanil in the patented method. Rohm and Haas has not offered or granted any express license to anyone as the brief of the Justice Department seeks to imply (e.g., JB 6, 14). It has never received any payment for propanil other than the purchase price from its customers. All such Rohm and Haas propanil is employed in the method of the Wilson patent to control weeds in crops (A. 143).

D. Defendant-Petitioners' Activities in the Sale of Propanil.

The original Wilson patent application was filed in 1958 and petitioners became aware of the application at least as early as 1968 (A. 24). Knowing of Rohm and Haas' sales of propanil as a selective, post-emergence herbicide and the publicity surrounding the Wilson invention, petitioners commenced the manufacture and sale of propanil. They sold propanil for the now patented use while the Wilson patent application was pending, a period in which petitioners could profit from respondent's invention yet incur no liability for infringement. However, after the Wilson patent issued on June 11, 1974, "they continued to sell propanil, knowing of the patent, and their customers have directly infringed the patent by following the method described on defendants' containers of propanil" (A. 140). None of the petitioners purchase propanil from Rohm and Haas. Petitioners' propanil is sold in containers bearing labels which recommend only the methods of use described in the Wilson patent claims. When petitioners sell propanil, they know that their customers will infringe the patent in suit by following the label instructions, and their customers do in fact infringe (A. 140-143). Petitioners concede that they are contributory infringers (PB 6).

E. The District Court Decision.

On stipulated facts, the United States District Court for the Southern District of Texas granted petitioners' motion for summary judgment based on patent misuse. The District Court also denied respondent Rohm and Haas' motion for a summary judgment that it had not misused the patent.

F. The Court of Appeals Decision.

The Court of Appeals unanimously reversed. It held as a matter of law that a patent owner who markets an unpatented, nonstaple product whose only commercial use infringes the patent is not guilty of patent misuse either for selling the product with label instructions for using it to practice the patented process or for declining to grant express licenses to others to sell the nonstaple product for use under the patent. The Court of Appeals rejected the arguments that such sales constituted an illegal extension of the patent right ("tying") or that a patent owner must submit to compulsory licensing of others in order to avoid a charge of patent misuse (A. 176-177). It remanded the case for proceedings on other issues and for trial if necessary.

SUMMARY OF ARGUMENT.

Rohm and Haas seeks to enforce its process patent under the doctrines of active inducement and contributory infringement, defined in 35 U. S. C. § 271(b) and (c) respectively. Petitioners have admitted facts sufficient to constitute both active inducement and contributory infringement, but they contend that Rohm and Haas is barred from enforcing its statutory patent rights because of alleged patent misuse. The misuse supposedly consists of Rohm and Haas' sales of propanil which by operation of law authorize the purchaser to resell or use the purchased propanil in the patented method. Petitioners further assert that misuse can be avoided (purged) only if Rohm and Haas grants express licenses under its patent (compulsory licensing) to legitimize petitioners' infringement.

Several provisions of the 1952 Patent Act relating to "use patents" form the focal point of this litigation. In adopting the general Act "to revise and codify" the Patent Laws in 1952, Congress specifically authorized patent protection for the discovery of a new use for an old product (35 U. S. C. § 100(b)); it provided a separate cause of action for active inducement of infringement (35 U. S. C. § 271(b)); it restored to the law a small portion of the contributory infringement doctrine, which doctrine had previously been eradicated by the *Mercoid* decisions [2] (35 U. S. C. § 271(c) and (d)); and it reaffirmed the traditional right of a patentee to exclude others from practicing his patent right (35 U. S. C. § 154). That portion of the contributory infringement doctrine restored to the law in § 271(c) dealt with the very conduct at issue

2. *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U. S. 661 (1944); and *Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U. S. 680 (1944).

here—the sale of nonstaples having use only in a patented process.

As recounted in the Court of Appeals decision, § 271 had its roots in the judicially created doctrine of contributory infringement. At one point, this Court applied the doctrine to staples and nonstaples alike, and permitted a patentee to limit and control a variety of commerce, both that which existed apart from the patented invention and that which necessarily resulted in infringement since the material sold had no other use. The Court then substantially eroded this broad doctrine by holding that it was a patent misuse to interfere with the sale of unpatented staples which had uses other than to infringe. Such interference would preempt existing and legitimate sales of unpatented substances for noninfringing purposes. Contrary to the arguments of petitioners and the Justice Department here, all of this Court's cases on patent misuse prior to *Mercoid* dealt with such staples, and those decisions would not have condemned Rohm and Haas' present activities as misuse. Finally, in the *Mercoid* cases, this Court for the first time applied the patent misuse doctrine against unpatented *nonstaple* materials. Justice Douglas recognized the devastating effect of this decision on the doctrine of contributory infringement, and he noted that: "What residuum may be left we need not stop to consider" (320 U. S. at 669).

Following the *Mercoid* decisions, there arose a movement to restore a small measure of the doctrine restricted, however, to nonstaples, and this culminated in § 271(c) and (d), enacted as part of the 1952 Patent Act. The effect of § 271, and the wording to achieve that effect, were carefully considered during the four years of hearings which preceded its enactment. During those hearings, the Justice Department repeatedly urged that the Act not be passed since its effect, *inter alia,* would permit a patentee

to sell unpatented parts for a patented combination and at the same time prohibit his competitors from selling such unpatented materials in competition with him. A key draftsman of the Act agreed that such activity would be authorized by now § 271(d). He also agreed with the Congressional Subcommittee considering the act that *Mercoid* involved a right to use a combination patent predicated solely upon the purchase of an unpatented element thereof from the patentee. He further stated that such practice would be one of the activities permitted by now § 271.

Congress listened to essentially every argument against the act now made by Justice and petitioners. It resolved public policy in favor of contributory infringement as defined in § 271(c) and (d) and in so doing it legislated in accord with the same basic policy which led to the establishment of the patent system pursuant to Article I, Section 8 of the Constitution. Under that system, the exclusive rights granted to a patentee take nothing from the public which it had before the invention; at the same time, innovation is stimulated by the reward of a limited term of exclusivity. Similarly, the doctrine of contributory infringement takes nothing from the public when it permits a patentee to enforce his patent against those who deal in unpatented nonstaple substances used only in infringing ways. Before the patented invention, there was no known commercial use for the unpatented substance. The public is benefited by the inventive use while a demand is created for the unpatented material. This not only stimulates the search for new uses of known but useless materials, it also furthers development of alternative materials and uses. No legitimate competition is burdened since, by definition (§ 271(c)), the sale of a nonstaple must lead inevitably to direct infringement.

To make contributory infringement a viable doctrine, Congress adopted § 271(d) which exempted patent owners from "misuse or illegal extension of the patent right" when they engage in three activities: subsection (d)(1) permits Rohm and Haas "to sell unpatented [nonstaple] propanil for use in its patented process"; subsection (d)(2) permits Rohm and Haas to license its patent to others who "sell [the nonstaple] propanil for use in its patented process and collect royalties from those sales"; and subsection (d)(3) permits Rohm and Haas to enforce its process patent against "unauthorized sellers" of the nonstaple propanil.[3] Section 271(d) reads *disjunctively* and Rohm and Haas may engage in "one or more" of these activities; it is not required to engage in one of the stated activities before being able to engage in one of the other activities. Those who drafted the act made it clear at the underlying hearings that one could license or sue on his patent and he did not have to do both.

Ignoring this disjunctive wording and legislative intent, petitioners argue that because Rohm and Haas sells unpatented nonstaple propanil as permitted by (d)(1), it no longer has an optional right to license its patent under (d)(2). Instead, they argue, it is compelled to license all other manufacturers and their distributors under the Wilson patent. However, compulsory licensing is foreign to our patent system. If required for all use and combination patents where the patent owner sells a nonstaple component thereof, compulsory licensing would necessitate extensive court intervention to decide what is a "reasonable" royalty, how many and who shall be licensed, what shall be the terms and duration of license, etc. The burden of compulsory licensing on use and combination patents would chill sorely needed innovation with no resulting benefit to the public.

3. These quotations are from JB 13; see also PB 6.

The Court of Appeals correctly held that statutorily permissible conduct under § 271(d) cannot constitute an illegal tie-in. Section 271(d) expressly states that activity defined by the act is not an "illegal" extension of the patent right; no legitimate commerce is controlled (a basic requirement for illegal tying) by such activity, and the alleged tie herein is simply an authorization to sell or use the purchased product arising by traditional concepts of exhaustion of monopoly which existed long before § 271 was passed. No decision by this Court since the enactment of § 271 has addressed the issues presented by this case. The Court, has, however, expressly confirmed that an action for contributory infringement—which necessarily is directed to unpatented materials—has been revived as a substantive right by § 271.

ARGUMENT.

Introductory.

The Circuit Court correctly held that under the 1952 Patent Act, Rohm and Haas is not guilty of misuse for selling an unpatented nonstaple product to customers who, by operation of law, thereby acquire the right to use the product in practicing the patented method.[4] Petitioners, however, contend that Rohm and Haas misuses its patent unless it grants express licenses to propanil manufacturers on reasonable terms.

There is a basic inconsistency in petitioners' position that Rohm and Haas is misusing its patent by controlling or deriving profits from the sale of unpatented propanil, but that this misuse is purged and the patent becomes enforceable if Rohm and Haas grants petitioners licenses *to do the same thing*. In either event, the patent right is "extended" as permitted by the contributory infringement doctrine to embrace unpatented propanil. The question actually presented by petitioners is not Rohm and Haas' right to sell propanil and its customers' right to use it, but rather petitioners' right to compulsory licenses to enable them to do the same thing. It is self-evident that petitioners are basically demanding a license to legitimize their sales of propanil which, in the absence of such a license,

4. Purchasers from Rohm and Haas acquire the right to use propanil in the patented method because propanil has no other use and the patented method is recommended on propanil's labels. The right so acquired is based on the familiar principle that "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *United States v. Univis Lens Co.*, 316 U. S. 241, 249 (1942); see also *Adams v. Burks*, 84 U. S. (17 Wall.) 453, 456 (1873); and *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U. S. 476, 497 (1964), known as *Aro II*. The "relinquishment of the patent monopoly" is sometimes characterized as an exhaustion of the patent right or as an implied license.

are wanton and wilful patent infringements—not competition.

I. On the Very Face of the 1952 Patent Act, Since Respondent Rohm and Haas' Activities Are Limited to Nonstaples, They Are Within the Statutory Exceptions to the Misuse Doctrine in 35 U. S. C. § 271(d).

The 1952 Patent Act, entitled an act both "to revise and codify the laws", specifically extends patent protection, the patent right, to the discovery of a new use for a known or old product.[5] The Act defines patent infringement in 35 U. S. C. § 271(a), and provides in subsection (b) that those persons who *actively induce infringement* shall be liable as infringers. Subsection (c) of § 271 imposes liability for *contributory infringement* on those who sell a "component of . . . a patented process . . . knowing the same to be especially made or especially adapted for use in an infringement of such patent", provided the component constitutes "a material part of the invention" and is "not a staple article or commodity of commerce suitable for substantial noninfringing use". Petitioners' sales admittedly fall within the explicit prohibitions of § 271(c), contributory infringement (PB 6; A. 9-10), and Rohm and Haas' sales of propanil, were it not the patent owner, would also be contributory infringement.

Section 271(d), the critical section under construction, provides that a patent owner shall not be deemed guilty either of patent "misuse or illegal extension of the patent right" for doing any one or any combination of three specific acts, each of which relates to "contributory infringement". The statute insulates the patent owner

5. In this respect, 35 U. S. C. § 100(b) provides that a process which may be the subject of an invention "includes a new use of a known process, machine, manufacture, composition of matter, or material."

from misuse whether its activities consist of selling under subsection (1), licensing one or more persons under subsection (2), suing either infringers or contributory infringers under subsection (3), or any combination thereof.

On the very face of the statute, Rohm and Haas' challenged acts are only those which § 271(d) says are not a ". . . misuse or illegal extension of the patent right. . . ."

It has "derived revenue from acts which if performed by another without [its] consent would constitute contributory infringement of the [Wilson] patent" (§ 271(d)(1)), that is, Rohm and Haas has sold propanil for weed control in rice.[6] Sale of propanil by another is contributory infringement because propanil is admittedly not a "staple article or commodity of commerce suitable for substantial noninfringing use" and it is sold for and used by purchasers only in methods embraced by the Wilson patent claims. As the sole active ingredient applied to both weeds and crops in the patented method, propanil—in the words of § 271(c)—is a "material part of the [Wilson] invention" and is "especially made or especially adapted" for use in the methods claimed in the Wilson patent. By the express mandate of § 271(d)(1), therefore, Rohm and Haas' deriving of revenue from sales of this product does not constitute "misuse or illegal extension of the patent right."

6. Section 271(d) specifically incorporates the definition of "contributory infringement" in enumerating the circumstances in which patent misuse shall not apply. "Contributory infringement" as defined in § 271(c) refers to the sale of a nonstaple article such as involved here. The Court of Appeals correctly linked subsections (c) and (d) (A. 174-175), and the District Court proceeded on a wrong premise when it failed to do so (A. 105-106). The draftsman of § 271 intended that (c) and (d) be read together (A. 172-173), and the Court of Appeals so found (A. 174-175; *infra* pages 34-36, 39-41).

By operation of law, Rohm and Haas' sale of propanil authorizes the purchaser to resell the purchased product for use in the patented method. But § 271(d)(2) exempts Rohm and Haas from misuse if it has "authorized another to perform acts which if performed without [its] consent would constitute contributory infringement of the [Wilson] patent."[7] In the absence of the implied authorization, resale constitutes contributory infringement. Section 271(d)(2) provides that Rohm and Haas shall not "be denied relief or deemed guilty of misuse or illegal extension of the [Wilson] patent right by reason of" having done this act.

Despite Rohm and Haas' refusal to grant licenses to petitioners, petitioners insist on selling propanil for the patented method. Rohm and Haas has therefore "sought to enforce [its Wilson] patent rights against infringement [and] contributory infringement". Seeking to enforce the Wilson patent against petitioners rather than license them does not constitute "misuse or illegal extension of the patent right" since it is expressly authorized by § 271(d)(3).

Section 271(d) also expressly provides that *no combination* of the above-described acts can give rise either to patent misuse or any other illegal extension of the patent right. In the words of § 271(d), the patentee may do "one or more" of the practices enumerated in subsections (1), (2), and (3), and, as held by the Court of Appeals, this "reinforces the view that a patentee may sell unpatented components while refusing to license others to do the same conduct—sell the unpatented component—without thereby being deemed guilty of misuse" (A. 144).

Petitioners do not dispute that respondent Rohm and Haas has carried out acts authorized by the § 271(d)(1)

7. A patentee is equally exempted from misuse if he has "licensed" another to contributorily infringe his patent. The explicit right to license afforded by § 271(d)(2) necessarily implies the optional right *not* to license.

to (3) statutory exceptions. Based on the plain wording of the statute, that should be the end of it.

However, petitioners seek to avoid the plain import of § 271(d) by claiming that Rohm and Haas does something else, i.e., it refuses to license petitioners to legitimize their infringement. But there is no compulsory license provision in § 271(d). Had Congress desired to condition § 271(d) on a licensing requirement, it could easily have done so—but this would have required drastic changes in the existing statutory language. Nowhere in the language of the act or its extensive history is there any suggestion that the authorized acts necessitate compulsory licenses. Plainly, enforcement under § 271(d)(3) was not conditioned upon licensing under § 271(d)(2).

II. The History of 35 U. S. C. § 271(d) Confirms That It Exempts Respondent From Patent Misuse.

A major part of the decision below consisted of an extensive, well-reasoned analysis of the history underlying § 271(c) and (d). That analysis shows beyond question that Rohm and Haas is exempt from misuse because its activities and enforcement are limited to a nonstaple product. The legislative history centers on: (a) the decisions of this Court establishing the equitable doctrine of contributory infringement, then increasingly eroding it by expanding the doctrine of patent misuse; and (b) the ensuing hearings and passage of the 1952 Patent Act, clearly showing that Congress intended to—and did—restore the contributory infringement doctrine to a narrow class of cases involving the sale of *nonstaple* products which have no commercial use except to infringe a patent.

A. The Decisional History.

As a necessary prelude to its statutory construction, the Court of Appeals discussed the historical progression

of judicial decisions leading to the enactment of § 271(c) and (d). It first discussed (A. 145-153) the development of the "judicial invention" of contributory infringement "designed to give effective protection to patentees" against those knowingly supplying others with the tools of infringement (A. 145).

The first case applying the rule of contributory infringement was *Wallace v. Holmes*, 29 Fed. Cas. No. 17,100 (C. C., D. Conn. 1871).[8] The invention was a kerosene oil lamp. The claims recited a unique burner arrangement plus a conventional glass chimney. Defendant sold only the burner and therefore alleged he was not an infringer. The strong sense of equity which impelled the court to find liability is apparent in Judge Woodruff's opinion:

> "And now it is urged, that, having made and sold burners only, they are not infringers, even though they have distributed them throughout the country in competition with the complainants, and have to their utmost ability, occupied the market, with the certain knowledge that such burners are to be used, as they can be used, by the addition of a chimney. Manifestly, there is no merit in this defense, and it must be regretted if the law be not such as will protect the complainants against this palpable interference.
>
> * * *
>
> "It cannot be, that, where a useful machine is patented as a combination of parts, two or more can engage in its construction and sale, and protect themselves by showing, that, though united in an effort to produce the same machine, and sell it, and bring it

8. The expression "contributory infringement" was first used in *Synder v. Bunnell*, 29 F. 47 (C. C. S. D. N. Y. 1886).

into extensive use, each makes and sells one part only, which is useless without the others, and still another person, in precise conformity with the purpose in view, puts them together for use. If it were so, such patents would, indeed, be of little value. In such case, all are tort-feasors, engaged in a common purpose to infringe the patent, and actually, by their concerted action, producing that result."

In *Leeds & Catlin Co. v. Victor Talking Machine Co.*, 213 U. S. 325 (1909), this Court recognized the doctrine of contributory infringement and applied it to protect the owner of a patent covering the combination of a disc record and a stylus from defendant's unlicensed sale of discs to purchasers who used them in infringing the patent. The discs in issue were found by this Court to be unsuitable for any non-infringing purposes, so they were "nonstaples". This landmark decision was never overruled by this Court until the *Mercoid* decisions, thirty-five years later. A necessary result of *Leeds & Catlin* and similar decisions was to extend the patent right to include nonstaple materials not literally embraced by the language of the claims (e.g., discs were protected although the claims covered the combination of disc and stylus).

The contributory infringement doctrine reached its "high water" mark several years later in *Henry v. A. B. Dick Co.*, 224 U. S. 1 (1912). The court below described the *A. B. Dick* holding as follows (A. 151):

> "The principles enunciated in *Dick* effectively enabled a patentee to 'tie' ordinary staples of commerce, none of which was even an element of the patented device, to a purchaser's right to use the device. This result was achieved by enforcing through the patent law instead of general contract law a notice attached to each patented machine at sale that required the purchaser to use the machine only with stencil paper, ink, or other supplies made by the patent holder, A. B. Dick. The majority ruled that any breach of these conditions by the buyer constituted infringement of the underlying patent and that any conduct aiding the breach was contributory infringement."

The *A. B. Dick* case thus extended the patent right far beyond *Leeds & Catlin* to embrace staple materials capable of many uses besides in the claimed invention. It is self-evident that *A. B. Dick* interfered with a long-standing substantial business in the sale of unpatented staples, "stencil paper, ink or other supplies", and it is not at all surprising that the pendulum between the antitrust laws and the patent laws then moved in the opposite direction for the next thirty years, culminating in the *Mercoid* cases and passage of § 271 in response thereto.

A. B. Dick's intrusion of the patent laws into the antitrust area led Congress expressly to limit it, two years later, in Section 3 of the Clayton Act. As stated by the court below (A. 153):

> "Two years later in partial response to *Dick*, Congress passed section 3 of the Clayton Act and the Federal Trade Commission Act. New members of the Court joined with the *Dick* minority to form a new majority, and thereafter the Court began a retreat from the principles just reviewed. Their vehicle was the new doctrine of patent misuse."

There followed a steady erosion of contributory infringement by the new judicially created doctrine of patent misuse, traced in detail by the court below (A. 153-158), culminating in the *Mercoid* decisions.

In *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502, 516 (1917), in the context of staple articles, the Court set forth what became the standard for patent misuse:

> "We are convinced that the exclusive right granted in every patent must be limited to *the invention* described in the claims of the patent, and that it is not competent . . . [to] *extend the scope* . . . by restricting the use of it to materials necessary in its operation, but *which are no part of the* patented invention."[9]

On this reasoning, the Court held unenforceable a contractual requirement that a purchaser of a patented machine use in that machine only film—a staple article capable of substantial noninfringing uses—purchased from the patentee (A. 153).

Petitioners' historical argument in Point 2 (PB 13-18) is wrong and extends far beyond this Court's holdings in *Motion Picture* and the succeeding misuse cases. None of the cases, prior to *Mercoid*, abolished the contributory infringement doctrine when the patent owner sold unpatented, nonstaple products. The doctrine was not destroyed by the *Motion Picture* case, which related only to staple articles, but was diminished over the next 27 years until the *Mercoid* cases were decided.

In succeeding cases, patent misuse barred relief for contributory infringement:

> 1) where the patentee had required users to purchase for use in a patented combination solid carbon dioxide —a staple article capable of substantial noninfringing use—from its exclusive licensee, *Carbice Corp. of America v. American Patents Dev. Corp.*, 283 U. S. 27 (1931);

9. Emphasis supplied in all quotations unless specifically stated to the contrary.

> 2) in the patent owner's limitation of the right to use a patented process to purchasers of bituminous paving material—a staple article capable of substantial noninfringing use—from the patentee, *Leitch Mfg. Co. v. Barber Co.*, 302 U. S. 458 (1938);
>
> 3) in the requirement that purchasers of a patented dispenser buy salt—a staple article capable of substantial noninfringing use—from the patentee, *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488 (1942); and
>
> 4) in the requirement that those who wished to practice a patented process for reinforcing shoe insoles purchase rubber cement—a staple article capable of substantial noninfringing use—directly or indirectly from the patent owner, *B. B. Chemical Co. v. Ellis*, 314 U. S. 495 (1942).

In all of this Court's patent misuse holdings prior to the *Mercoid* cases, the unpatented component sold by the alleged contributory infringer was a staple article having substantial noninfringing uses.[10] Under the Court's holdings, the sellers of such established commodities as film, carbon dioxide, paving material, salt, and rubber

10. Petitioners argue that the *B. B. Chemical* case involved a non-staple (PB 15; see also JB 23, Note 20). This is not correct; see 32 F. Supp. 690, 698 (D. Mass. 1940), aff'd 117 F. 2d 829 (1st Cir. 1941) where the court stated that "defendant's latex adhesive is not manufactured by it exclusively for use in the patented process. It is a product manufactured by other concerns and bought and sold in the market." This Court's decision in *B. B. Chemical* made no reference to nonstaples. The Court of Appeals herein referred to *B. B. Chemical* as "involving the *possible* staple/nonstaple distinction" (A. 157). Whether it involved the distinction is unimportant here because the subsequent *Mercoid* cases clearly faced the distinction and clearly held that the misuse doctrine would be applied to nonstaples as well as staples. It was the *Mercoid* cases which prompted passage of Section 271 (see legislative history *infra*, pages 26-45).

cement were given protection against the contributory infringement doctrine. The suggestion (JB 8-10) that decisions prior to *Mercoid* would have condemned Rohm and Haas' activity here is simply false. The instant facts involve an admitted nonstaple, and not until *Mercoid*—which Congress modified by § 271—would Rohm and Haas' present policy have been considered misuse.

In the first *Mercoid* case (320 U. S. 661), the patent related to a heating system comprising a stoker, a thermostat and a stoker switch. The stoker switch was unpatented *per se*, but it had use only in the patented heating system. The patentee initially adopted a policy of granting a license only to customers who purchased the unpatented stoker switch from the patent owner or his exclusive licensee. When the patentee brought suit for contributory infringement against an unlicensed seller of the unpatented stoker switch, and the defense of patent misuse was raised, this Court sustained the defense and also overruled *Leeds & Catlin*, which had remained viable since 1909 (320 U. S. 668-69). Justice Douglas wrote that the Court's decision and those preceding it, "limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider." (320 U. S. 669; A. 158-60).

The Justice Department presents (JB 20-22) a misleading summary of the *Mercoid* cases (which summary conflicts with its previous interpretations of *Mercoid*, see *infra* pages 28, 35-42 and 1949 Hearings, pages 53-54 and 1951 Hearings, page 207). In *Mercoid I*, the alleged improper activity was characterized by the Court of Appeals as the equivalent of granting a written license with the condition that the patented system be practiced only with switches purchased from the single exclusive licensee (133 F. 2d 810, 811, see 43 F. Supp. 694, Finding 15). The Supreme Court agreed with this analysis (320 U. S. 663) as did the proponents of what became § 271 and the subcommittee considering it (1949 Hearings, page 69). While the *Mercoid I* patentee later offered licenses, no licenses were offered to competitors for many years. The Justice Department's contention that Mercoid was offered a license by Mid-Continent prior to the issuance of the Honeywell license (JB 20-21) is plainly wrong, since the Honeywell license issued *prior* to Mid-Continent's even acquiring rights under the patent in question (43 F. Supp. 694, Finding 12).

The Court again sustained the patent misuse defense in *Mercoid II* (320 U. S. 680) against the manufacturer of the switch to whom the patentee had granted an exclusive license. In *Mercoid II*, Justice Douglas went further and ruled that any attempt to bring unpatented goods within the protection of the patent is measured by the antitrust and not the patent laws.

Following its meticulous analysis of these decisions, the Court of Appeals took note of the historical facts that (A. 160):

> "In the aftermath of Mercoid, strange to say, there was great confusion in the courts and among the patent bar regarding the proper scope of contributory infringement;"

and that:

> "A movement arose among the bar to put some effective measure of contributory infringement back into the law, and various committees came forward to draft proposed legislation for consideration by the congressional committee then codifying the general patent law. The ultimate result was section 271."

Even the petition before this Court admits that the *Mercoid* cases created "consternation" resulting in the

enactment of "a statutory law of contributory infringement" and the corresponding "provisions expressly exempting certain activities from the antitrust laws and the law of patent misuse" (petition, p. 9). This statutory law of contributory infringement is, of course, § 271(c), and the provisions exempting activities from the antitrust laws and from patent misuse are those of § 271(d).

B. The Legislative History.

With the decisional perspective effectively set forth, the Circuit Court quoted extensively from the legislative history of § 271 and concluded that the history decisively established Rohm and Haas' position: § 271 was enacted to change the state of the law represented by the *Mercoid* decisions; it restored the doctrine of contributory infringement but limited it to the sale of *nonstaple* articles (§ 271(c)); § 271(d) imposed statutory limitations on the patent misuse defense but only where nonstaples are involved; and Rohm and Haas' activities fit squarely within the letter and spirit of those limitations. According to the Court of Appeals, this result "is one we see *so clearly* in the statutory words and its legislative history" (A. 181). Not only has Congress given the "clear signal" referred to in petitioners' and the Justice Department's briefs, but as stated by the Court of Appeals, "the impression becomes *almost overpowering*" that Rohm and Haas' position is correct (A. 176).

Title 35 of United States Code, "An Act To *Revise* and Codify The Laws Relating To Patents . . .", was approved July 19, 1952. As its title expressly states, the Act did not merely codify the existing patent laws as petitioners suggest (PB 8, 19-20—see also JB 16-17), but it also included important changes, in the words of Senator McCarran, "In view of decisions of the Supreme Court

and others . . ." [11] The House Report stated: "Although the principal purpose of the bill is codification of title 35 . . . there are a number of changes in substantive statutory law. . . . The *major changes or innovations* in the title consist of . . . the judicial doctrine of contributory infringement in § 271." [12] The Court of Appeals correctly found that: "The reports and, indeed, the title of the bill indicates its general purpose to be the revision, as well as the codification of the patent law . . ." (A. 165).

As noted by the court below (A. 170-173), the Justice Department unsuccessfully opposed the enactment of § 271 on the same grounds and policy arguments now urged by petitioners, and repeated by Justice in its *amicus* brief herein. A complete review of the legislative history shows that during the four years § 271 was under consideration, every argument now raised by petitioners and Justice in an effort to restrict its provisions was raised by the opponents in an effort to prevent its passage. Those arguments were considered and rejected. The act was passed in the form originally proposed without significant modification. Congress determined that public policy dictated passage of § 271, and Congress' resolution of public policy in favor of the act *prior* to its passage necessarily means that the same arguments *after* the passage of § 271 cannot be used to restrict its interpretation.

What is now § 271 was first proposed in the 80th Congress as H. R. 5988. Hearings on the bill were held in May 1948. The bill was reintroduced, without change, in the 81st Congress as H. R. 3866, and hearings were held in May and June 1949. No further action was taken on

11. Congressional Record, Vol. 98, No. 120, July 4, 1952, page 9534—See also A. 165. The Justice Department ignores the concluding remarks of Senator McCarran (JB 17).

12. Committee Report to Accompany H. R. 7794, House Report No. 1923, 82d Congress, 2d Session, May 12, 1952, page 5.

these bills until their substance, with some rearrangement, became part of H. R. 3760, an omnibus bill to revise and codify all of the patent laws. What is now § 271 was designated § 231 in H. R. 3760, and hearings were conducted in June 1951. H. R. 3760 was reintroduced as H. R. 7794 in the 82d Congress on May 12, 1952. It was reported favorably by the Committees of both the House and Senate and passed by unanimous consent on July 4, 1952. It was signed by the President on July 19, 1952.[13]

Petitioners understandably devote little discussion to the history of the Act, and in particular to the hearings during which § 271 and the public policy underlying it

13. The legislative history of Section 271 is reflected in several Hearings and Committee Reports identified below. The numbers in parentheses following the citations are the appropriate reference numbers employed by the Supreme Court Library. The texts of the forerunners of Section 271 are annexed hereto as Appendices A-C.

—Hearings on H. R. 5988, H. R. 4061 and H. R. 5248, Subcommittee on Patents, Trademarks and Copyrights of The House Committee on The Judiciary, 80th Congress 2d Sess. 1948 (6036)—hereafter "1948 Hearings".

—Hearings on H. R. 3866, Subcommittee No. 4 of The House Committee on The Judiciary, 81st Congress, 1st Sess. 1949 (6734)—hereafter "1949 Hearings".

—Hearings on H. R. 3760, Subcommittee No. 3 of The House Committee on The Judiciary, 82d Congress, 1st Sess. 1951 (7493)—hereafter "1951 Hearings".

—H. R. Report No. 1923, 82d Congress, 2d Sess. 1952 (11577) —hereafter "H. R. Report".

—S. Report No. 1979, 82d Congress, 2d Sess. 1952 (11569)— hereafter "S. Report".

A summary of the writing and enactment of the Patent Act of 1952 appears in *Patent Procurement and Exploitation, Southwestern Legal Foundation,* Lectures Presented March 21-22, 1963 BNA, 1963, pages 61-78 (copy annexed hereto as Appendix D). The intended meaning and effect of § 271 was restated in an article by a chief draftsman published soon after the passage of the act—G. Rich, *Infringement Under Section 271 of the Patent Act of 1952,* 35 J. Pat. Off. Socy. 476 (1953).

were discussed. To the extent petitioners refer to legislative history, they mainly quote isolated portions of the testimony and reports, for the most part out of context. All of the hearings are important to legislative history, and the testimony taken at the 1948 and 1949 Hearings was plainly available and referred to during the 1951 Hearings (e.g., 1951 Hearings, pages 151-152 and 207). A full appreciation of the intent and meaning of § 271 can be obtained only by following the legislative history from start to finish.

In reviewing legislative histories of statutes, this Court has carefully considered the administrative and legislative background of the statute, prior versions of the same bill and hearings thereon, and has accorded great weight to the statements of the draftsmen and sponsors, *Transcontinental & Western Air, Inc. v. Civil Aeronautics Board,* 336 U. S. 601 (1949); *Schwegmann Bros. v. Calvert Distillers Corp.,* 341 U. S. 384 (1951), *reh. den.* 341 U. S. 956 (1951); *United States v. Zacks,* 375 U. S. 59 (1963); *United States v. Enmons,* 410 U. S. 396 (1973); *Ernst & Ernst v. Hochfelder,* 425 U. S. 185 (1976), *reh. den.* 425 U. S. 986 (1976); *Federal Energy Administration v. Algonquin SNG, Inc.,* 426 U. S. 548 (1976).

As stated by Congressman Crumpacker, a member of the patent subcommittee, in an address following passage of § 271:

> "When the courts, in seeking to interpret the language of the Act, go through the ritual of seeking to ascertain the 'intent of Congress' in adopting same, they would do well to look to the writings of these men [the draftsmen]—Federico, Rich, Harris, and the others—as they, far more than any member of the House or Senate, knew and understood what was intended by the language used."

Patent Procurement and Exploitation, Southwestern Legal Foundation, supra, at p. 78, printed as Appendix D of this brief, see *infra,* page 90.

1. *H. R. 5988—The 1948 Hearings*

The origins of H. R. 5988, the first bill underlying present § 271, were carefully explained during the 1948 Hearings.[14] The bill was motivated "by recent decisions of the Supreme Court abolishing effective protection against contributory infringement", and its wording was carefully designed "to restore the stimulus of the patent system to large and important fields of inventive effort which have in practical effect, been placed outside of the patent law . . ." (1948 Hearings, page 3). In explanation of what prompted H. R. 5988, one of its primary draftsmen, Mr. Giles S. Rich, now an associate judge of the Court of Customs and Patent Appeals, stated (1948 Hearings, pages 4-5):

> "In these decisions, and particularly in the Mercoid cases, the Supreme Court has abolished the patentee's right to effective protection against contributory infringement. The Court did this, not by attacking the doctrine directly, but by making it illegal for a patentee to obtain the benefit of this doctrine."
>
> * * *
>
> "A necessary effect of the doctrine of contributory infringement . . . *is to give a patentee the right to exclude others from doing acts which would constitute*

14. Committee reports of a statute and previous versions of the bill are relevant and entitled to a great deal of weight, even more than debates on the floor of Congress, *Transcontinental & Western Air, Inc. v. Civil Aeronautics Board, supra; United States v. International Union United Automobile, Aircraft and Agricultural Implement Workers of America,* 352 U. S. 567 (1957), *reh. den.* 353 U. S. 943 (1957).

> *contributory infringement of his patent if done without his permission.* The patentee's inherent exclusive right to exclude others from practicing his invention piecemeal is like the main exclusive right given by a patent to prevent practice of the whole invention in that it does not deprive the public of anything which the public had before the invention was made. . . .
>
> "So also, *one who supplies a hitherto unused chemical to the public for use in a new method is stealing the benefit of the discovery* of the property of this chemical which made the new method possible. To enjoin him from distributing the chemical for use in the new method does not prevent him from doing anything which he could do before the new property of the chemical had been discovered."

Note that this hypothetical illustration fits this case like a glove. Continuing, Mr. Rich said (1948 Hearings, page 5):

> "Under the recent Supreme Court decisions, new-use inventions which are most widely used, and therefore most important, are, as a practical matter, placed outside the protection of the patent law. The decisions prevent the patentee from obtaining relief against the person who is guilty of causing infringement of the patent and leave him only the right to recover against innocent members of the public who have been induced to use the patented process."

The proposed statute was then explained, and respecting Section 5, now Section 271(d), it was stated (1948 Hearings, page 6):

> "Section 5 of the statute is of great importance since it provides that the mere use or enforcement of

> the right to be protected against contributory infringement which under our law has long been inherent in every patent, shall not be regarded as misuse of the patent. Section 5 thus does away with the ground on which the Supreme Court has destroyed the doctrine of contributory infringement. . . . section 5 is essential to *make the rights against contributory infringers which are revived by the statute practically useful and enforceable.*"

In the 1948 Hearings, another primary author of the Act, Mr. Robert W. Byerly, described the important distinction between active inducement (then Sections 1 and 4), which involves staple articles of commerce with an existing, legitimate market outside of the invention, and statutorily defined contributory infringement (then Section 3), which involves nonstaples having use only in an invention (1948 Hearings, pages 15-16):

> "Now, we do not want to ever suggest changing the law to the extent that selling any standard article of commerce to a man even if you know he is an infringer presents you with liability. . . .
>
> "But, on the other hand, we come to a thing like the lamp case where the man sells everything except the one detail and clearly should be stopped under the doctrine of contributory infringement."
>
> * * *
>
> "It [Section 3 defining contributory infringement] cuts you right down to a case *where there is really deliberate stealing.* You can hardly imagine a case where a man sells something which has no commercial use whatever except as a means for infringing this patent and where the thing is particularly adapted for that use."

This same essential difference, which formed the basis for striking "a proper balance between the field of patent law on the one hand and the field of general law in which antitrust laws operate on the other" (1948 Hearings, page 11), was repeated throughout the 1948 Hearings (e.g., 1948 Hearings, pages 6, 10-11, 15 and 16—see also A. 169).

Finally, speaking of Section 5 of H. R. 5988, which is essentially word for word what is now Section 271(d), Mr. Byerly explained (1948 Hearings, pages 16-17):

> "The last section of the statute is introduced to do away with another confusion which may result from the Mercoid case and that is the section which says that if a patent owner is entitled to relief, he should not be denied this relief because he is either seeking to enforce contributory infringement or has licensed people to do what he could have enjoined them from doing. In other words that [then Section 5, now Section 271(d)] takes care of the sort of case we have in the Mercoid case. *A man can either say, 'you cannot sell the part of my invention to someone else to complete it,' or he can say 'yes, you can sell the part of my invention to help others complete it provided you pay me a royalty.'* . . .
>
> "Now, a mere fact that he has done that with one man and sued another man does not bar him under this section 5 and the section seems almost like surplusage until you read the Mercoid case and then realize it is necessary to have it in there in order to give the man a clear right to use the limited and defined doctrine of contributory infringement which is defined in the first part of the bill."

This clearly reflects the intent of the drafters of the proposed statute (now § 271(d)) that the patentee would

have not only the right to grant licenses but also the *right to refuse to license* another to sell the unpatented, nonstaple component.

2. *H. R. 3866—The 1949 Hearings*

The same salient points of background, purpose and effect of the statute, now designated H. R. 3866 but identical in wording to the earlier proposal, were restated during the 1949 Hearings (pages 2-20). The careful consideration given to the wording of the bill and its motivation by the *Mercoid* decisions were discussed (1949 Hearings, pages 2 and 9-10—see also page 70). Then, summarizing the necessity for and the interaction between then Sections 3 and 5 of the proposed act (now Sections 271(c) and (d)), Mr. Rich stated (1949 Hearings, pages 13-14):

> "Before dealing with them specifically, I would like to recall that we are dealing with a problem which involves a conflict between two doctrines, contributory infringement and misuse.
>
> "It's crystal clear, when you have thoroughly studied this subject, that the only way you can make contributory infringement operative again as a doctrine, is to make some exceptions to the misuse doctrine and that certain acts shall not be misuse. Then contributory infringement, which is there all the time, becomes operative again."
>
> * * *
>
> "That subject, the exceptions to the misuse doctrine, is dealt with in section 5 of the bill, which is the most important section."

As he had done in 1948, the bill's draftsman very carefully distinguished between thc mere sale of conventional

(staple) articles of commerce having many uses other than infringement and articles (nonstaples) which had no substantial noninfringing uses (1949 Hearings, page 17):

> "So we have stopped short of that, and we have said that *you can control only things like the switches in the Mercoid case* which are especially made or adapted for use in connection with such patent and which are not suitable for actual commercial, noninfringing use [i.e., nonstaples]."

During the 1949 Hearings, the Department of Justice for the first time strenuously opposed what became § 271, and it did so *for precisely the same reasons* it argues in its brief before this Court. Mr. John C. Stedman, testifying on behalf of the Justice Department, complained (1949 Hearings, page 52):

> "Our most serious objections relate to section 5. . . .
>
> "In the general language in which this section is couched, it sounds reasonable and innocuous enough. *Its effect, however, is to permit a patentee to sell unpatented parts for a device or composition covered by his patent or sell unpatented materials or apparatus for use with a process patented by him, and at the same time prohibit his competitors, by suit for infringement, from selling such unpatented materials in competition with him.*
>
> "In short, enactment of section 5 of H. R. 3866 would enable the patentee to exercise control over the unpatented materials usable in his patented device or with his patented process and oust from the market his competitor dealing in the same materials."

Thus the Department of Justice plainly understood that under the proposed statute (now § 271(d)), a process patentee who sells an unpatented, nonstaple material for use in practicing his invention could at the same time prohibit his competitors from selling that same material.

In response, Mr. Rich restated the key distinction between legitimate commerce in conventional, staple articles and commerce in special materials having use only as infringements (1949 Hearings, pages 64-67):

> "Now as to section 5. For the most part *I agree with everything Mr. Stedman has said in his interpretation of that section,* but it seems to me that he ignores the fact that that section is limited to contributory infringement as defined in the preceding parts of the bill."
>
> * * *
>
> "I previously stated, and I wish to reiterate it, that section 5 is the most important part of the bill from the standpoint of accomplishing our purpose. The exception which we wish to make to the misuse doctrine *would reverse the result in the Mercoid case; it would not reverse the result in the Carbice case.*" (at page 67)

The draftsman went on to agree with Congressman Willis, who presided over the 1949 Hearings, that in *Mercoid I* the "fact that the right to use was predicated *solely* upon the purchase of the element from [the patentee]" was the thing which the Supreme Court regarded as a misuse, and he made it clear that this would be permitted under section 5 (now § 271(d))—see 1949 Hearings, page 69.

The Department of Justice's position in 1949 and now (JB 23-24)—which petitioners adopt in their brief—was

that the nature of the unpatented goods makes no difference: "It is our view that the basic proposition that a person should not be able to use his patent to control commerce in an unpatented device, whether it is especially adapted or not, is a sound proposition and should be retained in the law" (1949 Hearings, page 58; see also pages 54 and 56 and compare pages 70-71). Congress expressly rejected this broad proposition by enacting § 271. In so doing, Congress made a fair compromise and restricted the misuse doctrine in a just manner. What Congress did was to "assume its responsibility, legislate, and set up a national policy for the courts to follow", and that policy should not be frustrated by the same shopworn arguments offered prior to passage (1949 Hearings, page 20).

3. *H. R. 3760, Section 231—The 1951 Hearings*

During the 1951 Hearings, Mr. Rich, who had testified in 1948 and 1949, again explained the background, purpose and effect of what is now § 271 (then designated § 231), and the Justice Department again opposed passage on the very same grounds it had previously stated (1951 Hearings, pages 93-98, 150-176). Notwithstanding the Justice Department's criticisms in 1949, and in conformity with the extensive testimony in 1948 and 1949 explaining the meaning and wisdom of the provisions, § 231(d) effectively read word for word as had § 5 of the previous two bills.[15]

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15. The following quotes Section 271(d) of the 1952 Act with the material in [ ]'s having been deleted from Section 5 of H. R. 5988 and H. R. 3866 and the material italicized having been added. Section 231(d) of H. R. 3760 is identical to Section 271(d) of the present Act except that "another" in 271(d)(2) read—a person—in Section 231(d)(2).

> *"(d)* [SEC. 5.] No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal ex-

The Justice Department's 1951 opposition mirrored its opposition in 1949. First, Mr. T. Hayward Brown expressed concern regarding § 231(d) in the following manner (1951 Hearings, page 97):

> "Paragraph (d) would greatly impair the salutary doctrine that a patentee who has misused his patents may not recover in a suit for either direct or contributory infringement. The Supreme Court has held that a requirement by a patentee that users purchase from him or his exclusive licensee unpatented parts not within the scope of the patent, was a misuse of the patent and barred recovery even though contributory infringement was assumed to exist. This doctrine is a most important factor in the enforcement of the antitrust laws with respect to tying arrangements and the Department is opposed to any impairment thereof."

Thereafter, Mr. Rich testified. Referring to his previous explanation of its provisions and history (1951 Hearings, pages 151-152), he described how the *Mercoid* holdings had led to drafting this section; he explained the "sensible line in accordance with public policy" drawn between active inducement (staples) and contributory infringement

15. (Cont'd.)
tension of the patent *right* [monopoly] *by reason of his having* [because he has] done one or more of the following: *(1)* [(a)] derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; *(2)* [(b)] licensed or authorized *another* [one or more persons] to perform acts which if performed without his consent would constitute contributory infringement of the patent; *(3)* [(c)] sought to enforce his patent rights against infringement or contributory infringement."

As of 1951, H. R. 3760 in its entirety had been the subject of extensive review by the patent profession and industry (1951 Hearings, pages 22-24, 43-44, 150-151). The wording of section 231, which was refined over the course of four years, was studied and intentional (1951 Hearings, pages 152-153).

(nonstaples); and he then described the subsections of 231 and their interrelationship (1951 Hearings, pages 153-161). Respecting § 231(d), he stated (1951 Hearings, pages 161-162):

> "I was about to make one remark on paragraph (d) . . ., and all I want to say about it is this: It deals with the misuse doctrine, and the reason it is necessary is that the Supreme Court has made it abundantly clear that there exist in the law today two doctrines, contributory infringement on the one hand, and misuse on the other, and that, where there is a conflict, the misuse doctrine must prevail because of the public interest inherently involved in patent cases.
>
> ". . . Therefore, we have always felt—we who study this subject particularly—that to put any measure of contributory infringement into law you must, to that extent and to that extent only, specifically make exceptions to the misuse doctrine, and that is the purpose of paragraph (d).
>
> "It goes with, supports, and depends upon paragraph (c)." [16]

16. At PB 20-21, petitioners wrongly contend that this was the "only actual statement" by the draftsman "about the purpose of the statute to the 1951 subcommittee". That argument is plainly erroneous as any fair reading of the testimony promptly shows (e.g., 1951 Hearings, pages 152, 155, 158-160). Equally incorrect is petitioners' argument that this statement meant that the only purpose of § 271 was to reverse the holding that any effort "to enforce a patent against a contributory infringer is in itself misuse" (PB 21). Were that the only purpose, Section 271(d)(3), which provides there is no misuse if the patentee "sought to enforce his patent rights against infringement or contributory infringement", would have been all that was necessary. But in enacting additional subsections 271(d)(1) and (2) providing further exemptions from misuse (for selling and licensing activities), Congress clearly intended to—and did—accomplish far more than petitioners contend. The draftsman's statement "to that extent and to that extent only",

Another spokesman for the Justice Department opposed passage of what is now § 271 (1951 Hearings, pages 163-169), and at page 165 stated:

> "Our primary objection to section 231 is subsection (d); that is, the misuse doctrine. * * *
>
> "In other words, *as I read the section, it would have the effect of wiping out a good deal of the law relating to misuse of patents, particularly with reference to tying-in clauses.*"

With further reference to the effect of the proposed act on the *Mercoid* cases, Mr. Fugate observed (1951 Hearings, pages 168-169):

> "Well, the Mercoid case itself was a case where the patentee was attempting to enforce his rights in an action of contributory infringement. *Now, as I read this section [231(d)], he would have recovered in that case, in the Mercoid case, under this section.*"

In reply, Mr. Rich again explained the limited exception to the misuse doctrine carved out by the act, which exception depended upon the narrow definition of contributory infringement found in present § 271(c) (1951 Hearings, pages 169-170), and stated (1951 Hearings, page 173):

> "So attached to paragraph (c) we have a paragraph (d) that says that the recovery, the enforcement against contributory infringers, the holding out of the patent against contributory infringers, and granting them licenses, the use of it to protect the

16. (Cont'd.)
in context, refers to the limited definition of contributory infringement, which excluded staples, and not to a sole purpose of the Act to prevent suit itself from being a misuse.

> business and making money out of it, and getting your reward as a patentee, all of these things shall not be misuse, and then contributory infringement, which we have had all the time, would become effective again to the extent that they wish to have it so."

A member of the House Committee, Representative Rogers, summed up the intent behind present § 271(d) in the following manner (1951 Hearings, pages 173-174):

> "All right. Now, due to what many members of the patent bar believe, that it did away with contributory infringement cases, you feel that we should now state as a positive law a cause of action against contributory infringement as set forth in section (c), and that if he has done one of the three things in section 4 [sic-(d)], that shall not be considered a misuse of his patent, and thereby reestablish what you thought you had before the Mercoid case." [The draftsman of the Act agreed.]
>
> * * *
>
> *"Then the effect of (d) with the (3) in there would be to say to the Supreme Court that it is the sense of this Congress that where you have heretofore denied relief to the plaintiff, you shall henceforth grant him relief* if he has only performed one, two, or three of these acts in (d), and that is why the Department of Justice is objecting to it?" [The Justice Department agreed.]

At PB 21-22 (and at pages 4-6 of its Reply Brief on Certiorari), petitioners erroneously contend that a colloquy among the draftsman, the Justice Department and Mr. Crumpacker satisfied everyone that § 271(d) did not

really mean what Justice thought and that thereafter, Justice "dropped its contention". Plainly this is wrong. The comment attributed to the draftsman was based on staples being "excluded" from subsection (c) and simply meant that attempts to control staples would still be misuse. The Justice Department never changed its original interpretation of the act. Indeed, after the hearings had concluded—and well *after* the colloquy relied on by petitioners, the Justice Department renewed its opposition in a written submission filed July 3, 1951 (1951 Hearings, pages 206-208). In that submission, it first referred the Committee to its objections previously stated at pages 50-60, 63-64 and 75-79 of the 1949 Hearings, and then the Justice Department stated (page 207):

> "Subsection (d) of section 231 is particularly objectionable in the opinion of the Department since, although couched in general terms, its effect is to permit a patentee to sell unpatented parts for a patented device or combination and at the same time prohibit his competitors, by suit for contributory infringement, from selling such unpatented materials in competition with him."

The Justice Department's suggestion now (JB 22-23, notes 20 and 21) that Mr. Fugate in 1951 was not talking about a situation where the patentee refused to license all competitors is belied the above and by the Extension of Testimony at page 207 of the 1951 Hearings (e.g., "The practice . . . of granting a license to those who buy . . . and suing . . . those who do not buy . . .") as well as by the Department's earlier, and expressly referenced testimony (e.g., 1949 Hearings, page 52). Equally untenable is the Justice Department's contention at JB 19, note 18 that in *Ruschig* Judge Rich recognized the narrow scope of § 271(d). The

only reference to § 271 on the page referred to is a statement by one of the litigants which was not adopted by the court.

Notwithstanding the Justice Department's repeated objection—and with full knowledge of the pertinent provisions which had been repeatedly and consistently explained during the 1948, 1949 and 1951 Hearings, all of which were available to Congress—Section 271 was favorably reported by the House subcommittee (H. R. Report) and by the Senate (S. Report), and it received the unanimous vote of the full House and Senate.[17]

4. *Rebuttal of Petitioners' Arguments on Legislative Intent*

Despite these clear indications of legislative intent, petitioners (PB 8, 18-19) and the Department of Justice (JB 11) argue that there was no "clear and certain signal from Congress" that the Act means what it says and immunizes the policies complained of here, relying on *Deepsouth Packing Co. v. Laitram Corp.*, 406 U. S. 518 (1972). However, the Court in *Deepsouth* was dealing with § 271(a) which defines direct infringement and the mean-

17. S. Report and H. R. Report explained at pages 8 and 9 respectively that: "The last paragraph of this section [271] provides that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent." See also H. R. Report and S. Report, pages 28 of each). Amplifying on this, Mr. P. J. Federico, Technical Assistant to the House Committee charged with revising and codifying the Patent Laws, stated in his *Commentary on the New Patent Act*, 35 U. S. C. A. (hereafter "*Commentary*"), page 54: "The object of paragraph (d) is broadly indicated in the above quotation from the Revision Notes. As there stated, it is 'ancillary to' paragraphs (b) and (c) and was included primarily to except from the doctrine of patent misuse, developed by court decisions those acts of the patentee corresponding to acts which if performed by another without his consent, would give rise to liability. Paragraph (d) makes exceptions to the case law of misuse as are necessary to render the section effective as a basis of recovery."

ing of the term "makes". No legislative history relative to subsection (a) suggested any intent—by the draftsmen, by the subcommittees or by Congress—to make a change in the law of direct infringement. This is in direct contrast to the repeated statements quoted above that § 271(b), (c) and (d) intended significant changes in the law of *Mercoid* and excepted from the misuse doctrine precisely the activity underlying this controversy.[18] Contrary to petitioners' argument at PB 22 (and JB 17), the Committee Reports plainly indicate that the 1952 Patent Act made "major changes or innovations in the . . . judicial doctrine of contributory infringement in § 271" (H. R. Report, page 5).

It is well settled that the interpretation placed by the sponsor of a bill, throughout the legislative deliberations, on the very language subsequently enacted by Congress is accorded substantial weight in construing a statute, *Federal Energy Administration v. Algonquin SNG, Inc., supra,* and is a part of the legislative history which this Court considers, *United States v. Enmons; Schwegmann Bros. v. Calvert Distillers Corp.; Transcontinental & Western Air, Inc. v. Civil Aeronautics Board,* all *supra.*

At PB 19-22 petitioners nonetheless attempt to blunt the telling effect of the legislative history underlying § 271 by suggesting that the testimony of opponents to legislation (here the Justice Department) is not to be relied on in ascertaining the intent of Congress. They also suggest that no weight should be given to the 1948 and 1949 Hearings on the *same* statutory language (but see, for example,

18. As further stated by Mr. Federico in his *Commentary* at page 51, subsection (a) was for "completeness" because the "prior statute had no section defining or dealing with what constitutes infringement", but "Paragraphs (b), (c), and (d) of section 271 are of considerable importance and the Committee Report characterizes them as one of the major changes or innovations in the title."

1951 Hearings, pages 151-152 and 207 wherein specific reference was made to the earlier testimony). However, where the sponsors, draftsmen, and opponents of the statute all agree upon its meaning, statements of the opponents are "relevant and useful", *State of Arizona v. State of California,* 373 U. S. 546 (1963). As this Court has held, *First National Bank of Logan, Utah v. Walker Bank and Trust Company,* 385 U. S. 252, 261, *reh. den.* 385 U. S. 1032 (1967):

> "It is not for us to so construe the Acts as to frustrate this clear-cut purpose so forcefully expressed by both friend and foe of the legislation at the time of its adoption."

Quoting from the foregoing history, and supporting its opinion with even further citations from the legislative history, which we incorporate by reference herein in the interest of brevity (A. 164-176), the Circuit Court concluded that the statute was expressly intended to make substantive changes in the law (A. 165), that the history "indicates that section 271 was designed to immunize behavior like that in issue here" (A. 167), and that even opponents of the statute had similarly construed it (A. 170-173). Based on its exhaustive and scholarly analysis, the Court of Appeals correctly held (A. 176):

> ". . . the impression becomes almost overpowering that Congress *did* clearly provide for a patentee's right to exclude others and reserve to itself, if it chooses, the right to sell nonstaples used substantially only in its invention." (Emphasis the Court's).

That conclusion is completely supported in the legislative history of § 271.

III. In Passing Section 271, Congress Rejected Petitioners' Basic Argument That the Patent Right in Contributory Infringement Situations Is Defined by the Literal Scope of the Patent Claims; Activity Expressly Sanctioned by § 271 Cannot Be Tying.

Both petitioners' and the Justice Department's briefs repeatedly advance—as if it were dispositive of this case—the broad proposition that a patent monopoly extends only to the subject matter defined by the patent claims and that any effort to control or limit sales of something outside of those precise limits is impermissible and a misuse (e.g., PB 6, 7, 10 and 11 and JB 8-9). In so doing, they seek to revive the same arguments which ultimately led to the effective demise of the contributory infringement doctrine, and to turn back the clock thirty-six years to the *Mercoid* decision, in total disregard of § 271.

The argument is a deceptive and inapplicable truism when applied to those *contributory infringement* activities defined in § 271. By definition, contributory infringement always involves the control over or a limitation on something outside of the literal scope of the patent claims. If the subject matter were within the patent claims, the offense would be direct infringement—not contributory infringement (see e.g., A. 146, 161-163).

The application of the present extension argument properly led first to decisions restricting a patentee's ability to control existing commerce in *staple* products in such decisions as *Carbice, Morton Salt, Motion Picture* and *B. B. Chemical* (*supra,* pages 22-23). However, the *Mercoid* cases followed. They carried the argument to an extreme and found misuse in a patentee's attempt to prevent unlicensed sale of nonstaple articles, since the patentee was attempting to limit sales of something which

fell outside of the literal language of his claims (even though those sales were of articles having no use except to infringe and hence commerce necessarily leading to direct infringement)—see A. 162-164.

As the discussion of legislative history demonstrates, *supra,* pages 26-45, Congress was faced with a public policy decision: to what extent, if any in the face of the extension argument, should the contributory infringement doctrine—which necessarily permits control and limitation over "unpatented" commerce (see petitioners' definition at PB 10, footnote 4)—be revived and given precedence over misuse (see A. 162-163)? While both petitioners and Justice argue against the wisdom of restoring any measure of contributory infringement, Congress struck a reasonable middle ground. It resolved public policy in favor of contributory infringement but narrowly limited the revived doctrine to nonstaple articles, where those who sold such articles necessarily intended to and in fact caused direct infringement. Under these limited circumstances, Congress restored to patentees the right to limit the sale of materials *outside the literal scope of the claims.* And when passing § 271, Congress anticipated petitioners' arguments and expressly stated that in exercising such control patentees *were not* to be "deemed guilty of misuse or illegal extension of the patent right." Having declared that the "extension" was not "illegal", it necessarily follows that exercise of rights granted by Congress cannot properly be characterized as "tying".

This "extension" of the patent right—which § 271 by its very terms states is not "illegal"—does not nullify §§ 101, 112 or 154 or their historical counterparts, as petitioners argue at PB 12. Failure to comply with § 101 or § 112 will defeat all patent rights, both direct and contributory infringements. Section 154 is equally unaffected

by the contributory infringement doctrine, which provides a separate remedy to aid in its enforcement.

Rohm and Haas' sales practices are not illegal tie-ins for another fundamental reason. Illegal tie-ins require a substantial legitimate noninfringing business in the tied product. There was never any commerce in propanil until after Rohm and Haas made the invention at bar. Since the issuance of the Wilson patent, petitioners' sales of propanil are blatant, knowing contributory infringements and violations of the patent right. They are a series of torts and not a substantial market in a "tied" product. Under these circumstances, the patent policy of respondent cannot "inevitably curb" legitimate sale of propanil, a *sine qua non* of a tying arrangement. *Northern Pacific v. United States,* 356 U. S. 1, 5, 6 (1958); *McCullough v. Well Surveys,* 343 F. 2d 381, 406 (10th Cir. 1965).

In *United States v. Loew's Inc.,* 371 U. S. 38, 44-45 (1962), the Court said tying arrangements ". . . are an object of anti-trust concern for two reasons—they may force buyers into giving up the purchase of substitutes for the *tied* product, ° ° ° and they may destroy the free access of competing suppliers of the tied product to the consuming market . . .". *Fortner Enterprises, Inc. v. United States Steel Corp.,* 394 U. S. 495, 499 (1969) (*Fortner I*), also confirmed the emphasis on the "tied product", stating that a "not insubstantial" amount of commerce in the tied product market must be affected before the arrangement is considered an illegal tie-in, quoting *Northern Pacific, supra.* If and when any other practical use is discovered for propanil and substantial legitimate, noninfringing commerce develops, Rohm and Haas will no longer be able to rely on the contributory infringement provisions. Rohm and Haas is thus not seeking or obtaining any unlimited monopoly in propanil for

all of the possible uses which may develop, for the full seventeen years during which a patent is in force, the equivalent of the invalid patent claim of Monsanto to propanil *per se.* Neither the statute nor the decision of the Court of Appeals grants such rights to Rohm and Haas. Rather, Rohm and Haas only seeks a reasonable reward under the contributory infringement statute for its patented discovery, at least for the period in which that discovery is the only substantial use for the otherwise useless compound.[19]

Petitioners are also wrong when they contend that sales specifically permitted by § 271(d)(1) and enforcement sanctioned by § 271(d)(3) together constitute an illegal "tying" arrangement. They do not dispute that Rohm and Haas' conduct falls within the three exceptions

19. The compulsory licensing sought by petitioners does not necessarily follow even if propanil should become a staple. Although Rohm and Haas would no longer have the protection of § 271(d) or its claim for contributory infringement under § 271(c), it would still have a claim under § 271(b) for active inducement, and any patent misuse defense in the nature of a tie-in would still have to be measured by rule of reason rather than *per se* standards. *United States v. Jerrold Electronics Corporation,* 187 F. Supp. 545, 556 (E. D. Pa. 1960), *aff'd* 365 U. S. 567 (1961). See also *Dehydrating Process Co. v. A. O. Smith Corp.,* 292 F. 2d 653, 655 (1st Cir. 1961), *cert. denied* 368 U. S. 931 (1961), wherein the court stated: "We think the principle recognized by the district court in *Jerrold,* that a proper business reason may justify what might otherwise be an unlawful tie-in, is sound." Moreover, the Court has concluded in *Fortner I, supra,* that a "not insubstantial" amount of commerce in the tied product must be affected, and in *United States v. Fortner Enterprises,* 429 U. S. 610, 617 (1977) (*Fortner II*), that coercion and leverage must be present, i.e. "a disproportionately large volume of sales of the tied product resulting from only a few strategic sales of the tying product". All of these questions would have to be adjudicated, along with possible purging of misuse or a reasonable transition period to avoid misuse if propanil becomes a staple, before considering remedial action such as compulsory licensing. See also *Automatic Radio Mfg. Co. v. Hazeltine Research,* 339 U. S. 827, 832 (1950), and *Zenith Radio Corp. v. Hazeltine Research, Inc.,* 395 U. S. 100, 138 (1969).

to misuse stated in § 271(d)(1), (2) and (3). But they —and the Justice Department (JB 12-15)—go on to argue that Rohm and Haas must nevertheless be held guilty of misuse because it engages in a fourth activity, "something else not authorized: compelling those who wish to practice the patented invention to purchase propanil from Rohm and Haas, thereby tying a license under the patent to the purchase of the unpatented material" (PB 6). However, this so-called "something else not authorized" is pure semantic sophistry, for it is merely a restatement of Rohm and Haas' sales and patent enforcement activities permitted by § 271(d)(1) and (3) plus *the inevitable operation* of the legal doctrine that purchasers from Rohm and Haas automatically receive authorization to practice the patented method. No express licenses under the Wilson patent have been granted "conditioning" the license on the purchase of anything, notwithstanding the Justice Department's constant inference to the contrary.

The Court of Appeals readily saw through petitioners' "tying" argument, holding that the operation of the implied license doctrine in connection with Rohm and Haas' sales of a nonstaple specifically permitted by § 271(d)(1) does not constitute illegal "tying" (Footnote 27, A. 176-177):

> "Once an item has been conveyed it passes beyond the patentee's monopoly power and the buyer can use it or sell it as he wishes. See e.g., Adams v. Burks, 84 U. S. (17 Wall.) 453, 21 L. Ed. 700 (1873), and, more recently, Aro Manufacturing Co. v. Convertible Top Replacement Co., 377 U. S. 476, 497, 84 S. Ct. 1526, 12 L. Ed. 2d 457 (1964). Surely no statute was required to save a license that operates as a matter of law from being deemed patent misuse."

IV. Since Compulsory Licensing Has Never Been a Substantive Requirement of the Patent Laws or the Antitrust Laws, Respondent Has Not Committed Patent Misuse by Declining to Grant Express Licenses.

The Court of Appeals properly refused to rewrite § 271 to inject a compulsory licensing obligation (A. 177):

> "We decline to rule that a patentee *must* license under (d)(2) in order to use his rights under (d)(1) and (d)(3). A general licensing obligation is foreign to a statutory scheme in which patentees are free to suppress entirely or reserve for themselves their inventions." (emphasis court's)

Over seventy years ago, the Supreme Court affirmed a patent owner's right to "reserve to himself the exclusive use of his invention" and held that "he is neither bound to use his discovery himself nor permit others to use it", *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U. S. 405, 425 (1908). This is still the law. *Cataphote Corp. v. DeSoto Chemical Coatings, Inc.*, 450 F. 2d 769, 774 (9th Cir. 1971), *cert. den.* 408 U. S. 929 (1972).

While petitioners urge that some courts have previously required compulsory licensing (PB 29), the very cases they cite demonstrate that courts have required it only as a remedial or punitive measure to rectify substantive wrongdoings (e.g., price fixing) peculiar to a given case on which a final judgment has been entered. Never has any court singled out a broad class of patents, such as use patents, and decreed prospectively that the owners of such patents must license them as a condition precedent to their enforceability. Mandatory licensing of patents has never been a substantive requirement of the patent laws or the antitrust laws. Some statutes (PB 29), by express language and with clear legislative intent, have

required licenses in particular fields of intense public interest (PB 29), but neither the legislative history of the 1952 Patent Act nor its express language shows an intent to accomplish the radical result urged by petitioners.

Further affirmation of a patentee's "right to exclude others from making, using, or selling the invention" is found in 35 U. S. C. § 154. Congress affirmed that basic right in enacting § 271(d), which permitted the patent owner himself to derive revenue from acts which for others would be contributory infringement, while at the same time authorizing the patent owner to sue others to enforce the patent without any obligation to submit to compulsory licensing (*supra*, pages 17-18). Section 271 is expressed in the alternative and subsection (d)(3) does not require a patentee to offer the accused a license before proceeding "to enforce his patent rights". Those who drafted the statute made it clear in the hearings that one could sue *or* license, and was not required to couple suit with licenses (e.g. 1948 Hearings, pages 13 and 16). The Justice Department then recognized that compulsory licensing was not required (e.g. 1949 Hearings, page 52 and 1951 Hearings, page 207).

Congress has been importuned frequently by isolated special interest groups to require compulsory licensing of patents. But it has considered the larger interests of inventors and the public generally and has invariably refused to enact any general compulsory licensing statute. In light of the consistent rejection of all general compulsory licensing statutes by Congress, it would be ironic indeed to distort the present statute by reading into it such a radical requirement. This not only would negate both the explicit and implicit meaning of § 271, it also would involve a constitutionally impermissible limitation or destruction of those patent rights which are based upon a

new use of an old product. Previously considered unpatentable, such "use" inventions were recognized as patentable in the 1952 Act, 35 U. S. C. § 100(b).[20] As the Circuit Court recognized (A. 176), many of these "use" patents would be effectively destroyed if they are subject to the compulsory licenses demanded by petitioners as a pre-condition to their enforceability.

The theoretical existence of alternatives besides compulsory licensing to Rohm and Haas' present policy does not support the conclusion that Rohm and Haas *must* engage in that alternative activity (PB 28-31). In an effort to block passage of § 271, the Justice Department similarly argued that "there are several alternative activities that could be carried on by a patentee" such as practicing the whole of the claimed subject matter or licensing all who wished to use it (1949 Hearings, pages 76-77). Congress, however, provided a substantive right which cannot be defeated by renewed arguments that alternatives may be available.[21] Moreover, the suggested alternatives are impractical. For example, the multitude of farmers who use propanil on their rice crops are not interested in a direct license under the patent at bar. Even if all could be contacted, it is a foregone conclusion that very few would be willing to sign such an agreement,

20. *Rohm and Haas v. Roberts Chemicals*, 245 F. 2d 693, 698-99 (4th Cir. 1957).

21. Close analysis of these alternatives shows that many are not less harmful to petitioners. For example, were Rohm and Haas to enter the spraying business and carry out the patented process while refusing to license others to do so, even petitioners concede there would be no misuse. Yet in this manner, as the court below correctly noted (A. 162-163), Rohm and Haas could prevent petitioners from marketing propanil. The court further noted (A. 163): "What difference can it possibly make either to consumers or to competitors in the market for the unpatented item that the patentee has made his profits by selling the entire combination instead of the unique element? Competition in the submarket has been destroyed."

keep records to show the extent of their licensed activities, make periodic reports on such activities, forward royalty payments, or subject themselves to audits normally required in license agreements. Similarly, suit against thousands of farmers or herbicide applicators for direct infringement would be impractical. Thus, § 271(c) was provided as a practical remedy for patent enforcement in an otherwise impractical situation (e.g., see title of H. R. 5988 and 3866), and there is no question that this is exactly what Congress meant to do. Rohm and Haas is a chemical company, and it should not be required to enter businesses such as farming or spraying (which would deprive others of their livelihood) in order to obtain the reward promised a patentee under the patent system.

The conclusion is inescapable—in the words of the court below "almost overpowering" (A. 176) and "one we see so clearly in the statutory words and its legislative history" (A. 181)—that Rohm and Haas' patent policy is completely protected by § 271(d). The contrary position of petitioners ignores not only this statute but § 100 (b), § 154, and the great body of law going back to the *Continental Paper Bag* case, *supra,* and beyond.

V. There Is No Conflict Between the Decision Below and the Cases Decided Since Passage of the 1952 Patent Act.

The Court of Appeals concluded that only two prior opinions of this Court, the *Aro* opinions,[22] have touched on §§ 271(c) and (d) since their enactment, and it correctly recognized these decisions "as not controlling the result of our case" (A. 181).

22. *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 365 U. S. 336 (1961) (Aro I), and *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U. S. 476 (1964) (Aro II).

In the *Aro* cases, the Court faced actions for contributory infringement based on a claim that defendant's specially cut fabric for a patented convertible top combination aided an infringing "reconstruction" of the combination, rather than a noninfringing "repair" of the item.

The Court rejected a contributory infringement charge in *Aro I* because those who purchased and used the fabric were merely *repairing* the patented combination which they had bought from a licensee, and hence there was *no direct infringement.* In the absence of direct infringement there could be no contributory infringement (A. 178-179). Petitioners rely on several statements in the majority and concurring opinions which state that separate elements of a combination are not protected by combination claims (PB 24-25). However, a careful reading of these portions shows that they were concerned with direct infringement (whether the replacement of fabric was a reconstruction or a repair) and not contributory infringement. The Court clearly recognized that separate rights existed under the contributory infringement doctrine. Thus, Justice Whittaker, speaking for the majority, concluded that the making and selling of the cut fabric "is not a *direct* infringement under 35 U. S. C. § 271(a)" but that this still left the question "whether petitioners' manufacture and sale of fabric constituted a *contributory* infringement of the patent under 35 U. S. C. § 271(c)" (365 U. S. 340—emphasis Court's). And Justice Black, in his concurring opinion holding that the "crucial question here" was "one of direct, not contributory infringement" (365 U. S. 347), stated (365 U. S. 361):

> "But in the absence of such a separate patent, which in this case would presumably be some sort of patent on the utility of the shape of the fabric, the public has the right to make, use and vend each part *subject*

> *only to the established limitation of contributory infringement*: that a part may not be knowingly supplied for use by an unauthorized person in a new making of what is in effect the whole combination."

In *Aro II*, this Court explicitly upheld the doctrine of contributory infringement, including "extension" of the patent right to the unpatented fabric, beyond the literal words of the claims (377 U. S. 522). It permitted the patent owner to sue and recover from the vendor of the unpatented product—a holding which is totally consistent with that reached by the court below. Petitioners concede (PB 25) that in *Aro II* the Court recognized the revived doctrine of contributory infringement, but they erroneously argue that the Court "applied the doctrine of patent misuse to deny relief" (PB 25). The fallacy of this assertion is self-evident from petitioners' brief wherein they concede a few lines later that the Court did not use the term "misuse", and further that, "The misuse defense had been abandoned" (PB 26, note 11). The Court flatly stated "patent misuse . . . is not an issue in this case" (377 U. S. 491).

In *Aro II*, the Court reiterated the holding of *Aro I* that replacement of fabric in a patented convertible top combination was a noninfringing "repair" (377 U. S. 479-480). Consequently, if the repair was carried out on a convertible top originally licensed under the patent, there was no direct infringement and hence no contributory infringement (377 U. S. 480). However, if the original tops were unlicensed, repair *was* a direct infringement and unlicensed sale of the replacement fabric *was* contributory infringement (377 U. S. 484-485). Unlike *Aro I*, where the sales of the replacement fabric were to owners of General Motors cars on which GM had originally taken a

license under the patent, some of the replacement fabric sales in *Aro II* were to owners of Ford automobiles at a time when there was no license to Ford under the patent, and these were held to be contributory infringements for which the patentee could recover from Aro, the contributory infringer. Ford later took a license under the patent, to which petitioners refer (PB 25), and the Court held that the agreement with Ford effectively licensed the convertible top combination to purchasers (377 U. S. 497). Hence, purchasers of those Ford cars which were covered by the license could repair their licensed tops, and, as in *Aro I*, sale of replacement fabric to licensed purchasers for repair was *not* contributory infringement. Consequently, the patentee could not interfere by contract with commerce in the unpatented fabric, the sale of which was neither contributory nor direct infringement. The provisions attempting such control were declared unenforceable.

The present case is clearly distinguishable from the *Aro* decisions, because those cases turned on whether or not direct infringement had occurred. In this case direct and contributory infringement are conceded, and the defense is staked on patent misuse.

Moreover, as the Court of Appeals pointed out herein, the *Aro* cases involved a completely different market setting from that involved here (A. 180-181):

> ". . . Because the policies involved in our factual situation—a primary use market—differ so from the policies involved in protecting competition in a market for unpatented elements to be used as mere replacement parts at the hands of one with a legitimate right to tinker with a patented device by reason of his absolute ownership thereof, we consider the *Aro* opinions as not controlling the result of our case."

Since petitioners admit that the Court's opinion in "*Aro I* contains no reference to Section 271(d)" (PB 26) and since the majority in *Aro II* actually upheld the contributory infringement doctrine in the factual setting there involved, it is unfathomable how petitioners can blithely state that the *Aro* court "would have struck down" (PB 26) the respondent's sales and enforcement activities presently in issue.

Petitioners also contend (PB 26-27) that the decision below is in conflict with *United States v. Loew's Inc.*, 371 U. S. 38 (1962); *Zenith Radio Corp. v. Hazeltine Research Inc.*, 395 U. S. 100 (1969); *Deepsouth Packing Co. v. Laitram Corp.*, 406 U. S. 518 (1972); and *Blonder-Tongue Labs, Inc. v. University of Ill. Foundation*, 402 U. S. 313 (1971). *Loew's* is a copyright case and does not even mention § 271(d) or its effect on *Mercoid*. In *Zenith* this Court approved an extension of the patent to require royalty payments on unpatented products where such extension was mutually agreeable and more convenient for the parties. The *Zenith* decision does not rely on *Mercoid* or on § 271(c) or (d). *Deepsouth* dealt with § 271(a) and held there was no direct infringement where the unpatented components were not assembled into the patented combination in this country. *Deepsouth* referred to *Mercoid* only for the proposition that if there is no direct infringement, there can be no contributory infringement (406 U. S. 526). *Blonder-Tongue* dealt with collateral estoppel—not contributory infringement. The Court of Appeals correctly concluded that these decisions are in a "context far afield", stating (A. 181):

> "It is true that these cases contain ringing endorsements of patent misuse theory concerning the proper scope of a patent. However, we decline to rely on their general statements, made in context far afield from a patentee's effort economically to market his invention by sale of its unique, nonstaple elements, to reach a result contrary to one we see so clearly in the statutory words and its legislative history."

Petitioners also argued in their opening brief in support of the petition for certiorari, pages 13-14, that the Circuit Court decision conflicts with the decisions of the lower courts in four other cases, *National Foam Systems, Inc. v. Urquhart*, 202 F. 2d 659 (3rd Cir. 1953); *Preformed Line Products Co. v. Fanner Mfg. Co.*, 328 F. 2d 265 (6th Cir. 1964); *McCullough Tool Company v. Well Surveys, Inc.*, 343 F. 2d 381 (10th Cir. 1965), and *Ansul Company v. Uniroyal, Inc.*, 306 F. Supp. 541 (S. D. N. Y. 1969), *aff'd* 448 F. 2d 872 (2d Cir. 1971). To the extent petitioners may revive the argument in a reply brief (the Justice Department mentions the cases in passing at JB 14), Rohm and Haas incorporates by reference its response found at pages 26-27 of its brief in opposition to certiorari.

VI. The Decision Below Is Consistent With Sound Public Policy; It Fosters Innovation in an Important Class of Inventions While Taking Nothing From the Public.

A patentee's right, confirmed by § 271, to prevent others from contributorily infringing his patent affects no market which exists apart from the invention claimed and therefore takes nothing from the public. Congress insured this result by limiting the definition of contributory infringement to only those materials whose sale necessarily leads to direct infringement of what is claimed.

Were the Court of Appeals decision reversed, innovation in a whole class of important inventions—new

uses of materials known *per se* but having no public or economic value—would be discouraged. On the other hand, affirmance takes nothing from the public since the public had no benefit from the known material until the patented invention created a use, a demand and a market.

In the absence of effective protection under the Patent Laws, no one will accept the high risk and spend the time, resources and effort first to experiment and discover new uses for hitherto useless materials and then to develop such uses for market. Particularly in fields such as agricultural chemicals and human health, the high cost of research and of obtaining governmental approvals would strongly militate against development of known materials unless the anticipated patent protection could be effectively policed.[23]

The chilling effect on innovation prompted the filing of two *amicus* briefs before the Court of Appeals urging reversal of the District Court's opinion. The importance of the question and its potential effect on innovation so sorely needed in this country have led numerous organizations, representing a wide cross-section of American industry, additionally to request permission to appear as *amici* before this Court in support of the Court of Appeals opinion. The interest expressed by these organizations and the strong statements of public policy detailed in their briefs independently confirm the wisdom of Congress in enacting § 271 to provide meaningful protection to the class of inventions represented by Rohm and Haas'

23. For example, a study conducted in 1975 for the Environmental Protection Agency reported that to find one commercially successful agricultural herbicide, a company must screen about 7,000 compounds, and the average research cost was about $7,400,000.00. Weschler et al., Evaluation of the Possible Impact of Pesticide Legislation On Research and Development Activities of Pesticide Manufacturers, EPA-540/0-75-018 (1975). This does not include "commercial" costs such as the expense of building a plant.

discovery of a new and highly beneficial use for propanil. Propanil has been known for nearly eighty years and yet its only use today remains the patented use. This discovery was not by chance but was the result of costly research and development by Rohm and Haas. Petitioners are not innovators but merely seek to profit from the research investments of others by selecting their proven commercial successes. Unfortunately, this approach has become a standard business technique in some circles, described as "Replicate, don't innovate," by one executive in a recent speech.[24]

The need to encourage invention and innovation in this country has been expressed and documented by all segments of the economy, both public and private. Innovation in developing new uses for known materials should not be discouraged by burdening those discoveries with the requirement of compulsory licensing of all competitors at some rate which someone decides is "reasonable".

The decision below fosters important discoveries at no cost to the public since it places no burden on any pre-existing market or legitimate competition—by definition (§ 271(c)) there is no legitimate competition outside of the invention claimed. Affirmance will not only encourage others to develop new uses for previously known, but unused materials, it will also stimulate the development of other uses for the same materials and other methods and other chemicals to achieve the same result, beneficial effects which even the Department of Justice concedes (JB 10, notes 10-11).

24. This speech by Mr. Steven W. Lapham, new products director of Lehn & Fink Products Co., was made to the American Marketing Association, and reported in "The Wall Street Journal", March 16, 1980, p. 16. In advocating the "Replicate, don't innovate" strategy, Mr. Lapham is quoted further as saying: "Someone else has gone and done your homework for you . . . They have taken the risk, the time, and spent the dollars."

To excuse and continue their infringement, petitioners seek to rewrite § 271(d) and effectively to nullify Rohm and Haas' right to sue contributory infringers. Such rewriting—nowhere suggested by the words or history of § 271—would create only complex and expensive proceedings whereby courts or some special agency would be required endlessly to set "reasonable" royalty rates, adjust them on future contingencies, determine who and how many shall be licensed, on what terms and when they shall be licensed, etc. The administrative burdens and judicial proceedings which would be generated are not justified by any possible public benefit. The public actually loses since innovation is discouraged at a time when it is so clearly needed. Reversal of the decision below would favor only petitioners, whose blatant and wanton—and admitted (PB 6)—contributory infringement would be legitimized by compulsory licensing.

In enacting § 271, Congress struck a reasonable balance between the policy arguments of the parties and came down in favor of the values urged by respondent herein. This balance is in the common good, and it offers more hope for the future than condoning the conduct of petitioners and other opportunists who are always on the fringe, ready, and waiting to make money on the inventions of others.

CONCLUSION.

The only business in propanil today—almost eighty years after it was first described—is its sale for use in the patented process. This business was a direct result of the Rohm and Haas invention and the publicity given to it after the Wilson patent application was filed. For decades prior to that time propanil was an unsalable laboratory curiosity having no practical use. Although petitioners have contributed nothing to this invention, they have sold propanil in competition with Rohm and Haas after the Wilson patent was granted. To justify their wanton and malicious violation of Rohm and Haas' patent rights, and ignoring the dispositive effect of §§ 100(b) and 271(c) and (d), they have interposed a so-called misuse defense which would make a mockery of these statutes.

To construe § 271 as petitioners contend would frustrate completely the long-term efforts of the patent bar and the intent of Congress to restore by legislation a practical, effective remedy for contributory infringement of use patents—a remedy which had been taken away by *Mercoid.* If petitioners' arguments were to prevail, in the words of Judge Woodruff in *Wallace v. Holmes, supra,* "such patents would, indeed, be of little value".

The Court of Appeals correctly held that Rohm and Haas' sales, licensing and enforcement activities with respect to the nonstaple propanil are within the specific authorization of 35 U. S. C. § 271(d), that no patent misuse or illegal tie-in has occurred, and that no compulsory licensing is required. The Court of Appeals followed the plain meaning of § 271(d) and backed its conclusions by a scholarly analysis of the judicial and legislative history leading to the enactment of § 271 as a critical part of the

1952 Patent Act. The Court of Appeals' decision should be affirmed.

Respectfully submitted,

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APPENDIX A.

H. R. 5988

"A BILL TO PROVIDE FOR THE PROTECTION OF PATENT RIGHTS WHERE ENFORCEMENT AGAINST DIRECT INFRINGERS IS IMPRACTICABLE, TO DEFINE 'CONTRIBUTORY INFRINGEMENT,' AND FOR OTHER PURPOSES"

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any person who shall actively induce infringement of a patent shall be liable as an infringer.

"SEC. 2. Any person who shall contribute to the infringement of a patent in the manner set forth in section 3 shall be liable as an infringer.

"SEC. 3. The sale of a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, if especially made or adapted for use in infringement of such patent, and not suitable for actual commercial noninfringing use, shall constitute contributory infringement.

"SEC. 4. The mere sale of any staple article or commodity of commerce not especially made or adapted for use in a patented invention, and suitable for actual commercial noninfringing use, shall not of itself constitute contributory infringement, even though sold with the knowledge or expectation that it will be used in infringement of the patent.

"SEC. 5. No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent

shall be denied relief or deemed guilty of misuse or illegal extension of the patent monopoly because he has done one or more of the following: (a) Derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (b) licensed or authorized one or more persons to perform acts which if performed without his consent would constitute contributory infringement of the patent; (c) sought to enforce his patent rights against infringement or contributory infringement."

APPENDIX B.

H. R. 3866

"A BILL TO PROVIDE FOR THE PROTECTION OF PATENT RIGHTS WHERE ENFORCEMENT AGAINST DIRECT INFRINGERS IS IMPRACTICABLE, TO DEFINE 'CONTRIBUTORY INFRINGEMENT,' AND FOR OTHER PURPOSES"

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any person who shall actively induce infringement of a patent shall be liable as an infringer.

"SEC. 2. Any person who shall contribute to the infringement of a patent in the manner set forth in section 3 shall be liable as an infringer.

"SEC. 3. The sale of a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, if especially made or adapted for use in infringement of such patent, and not suitable for actual commercial noninfringing use, shall constitute contributory infringement.

"SEC. 4. The mere sale of any staple article or commodity of commerce not especially made or adapted for use in a patented invention, and suitable for actual commercial noninfringing use, shall not of itself constitute contributory infringement, even though sold with the knowledge or expectation that it will be used in infringement of the patent.

"SEC. 5. No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal

extension of the patent monopoly because he has done one or more of the following: (a) Derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (b) licensed or authorized one or more persons to perform acts which if performed without his consent would constitute contributory infringement of the patent; (c) sought to enforce his patent rights against infringement or contributory infringement."

APPENDIX C.

Section 231 of H. R. 3760

"A BILL TO REVISE AND CODIFY THE LAWS RELATING TO PATENTS AND THE PATENT OFFICE, AND TO ENACT INTO LAW TITLE 35 OF THE UNITED STATES CODE ENTITLED 'PATENTS'"

"§ 231. Infringement of patent

"(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

"(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

"(c) Whoever knowingly sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use shall be liable as a contributory infringer.

"(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized a person to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement."

APPENDIX D.

THE SOUTHWESTERN LEGAL FOUNDATION

PATENT PROCUREMENT
AND EXPLOITATION °

PROTECTING INTELLECTUAL RIGHTS

Lectures presented
at the First Annual Institute on
Patent Law
Dallas, Texas, March 21-22, 1963

BNA Incorporated • Washington, D. C.

These lectures were presented at the first annual Institute on Patent Law, March 21-22, 1963, Dallas, Texas. The opinions expressed are those of the contributors and not necessarily those of The Southwestern Legal Foundation.

This institute was presented under the direction of Dr. Andrew R. Cecil, Executive Vice President and Educational Director. LaDoris Morgan Whitney is Administrative Editor of Institute Proceedings.

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Washington, D. C.

Printed in the United States of America
Library of Congress Catalog Card Number: 63-17913

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CONGRESSIONAL INTENT—OR, WHO WROTE THE PATENT ACT OF 1952?

GILES S. RICH
Judge

United States Court of Customs and Patent Appeals
Washington, D. C.

Pick up any elementary work on statutory construction and it will tell you that the end and object of all construction is to find and enforce the intention of the legislature. The "master rule" of statutory construction, it is often said, is to carry out the legislative intent.

I never have been a legislator but I have been thrown into close contact with a few of them, and I have observed in them a certain amount of cynicism about "legislative intent." A little more than a decade ago, it was my good fortune to be injected into the middle of a legislative undertaking—for about two and one-half years—from which I emerged with entirely new ideas about how laws are made, about legislative intent, and, more specifically, about the Congress of the United States and how it enacted (I will not say wrote) the Patent Act of 1952.

The purpose of this discussion is to convey an accurate picture of how the 1952 Act came to be written; who wrote it; how it was done; and the relative roles of the actual authors and the Congress, from the viewpoint of an eyewitness and participant, of whom there were many. It is hoped that the story may give to a younger generation which was not present a bit of the sophistication about lawmaking acquired by those who were and that the knowledge will be of practical use to patent practitioners in helping to keep the patent system on a straight and efficacious course.

It is appreciated that there are difficulties in the latter objective, taking into account the fact that lawyers are

prone to strive for interpretations of the law which will win their cases and the problems that this creates for judges who are not familiar with the intricacies of the law —to say nothing of the common meanings of terms used by patent lawyers.

As an illustration, in the *Crane v. Spitfire* case,[1] a construction was made of the new statute entirely contrary to the intent of its authors because a lawyer urged on the court a wrong interpretation of the simple phrase, "The provisions of this title relating to applications for patent." The authors meant certain provisions of chapter 11, entitled "Application for Patent," dealing with formal and procedural matters. The court was led to hold, on the basis that this was new language in the 1952 Act, that it meant the provisions of Section 102 which does not relate to "applications" but to the patentability of *inventions.*

A vast difference exists between an invention and a patent application and between a patent and an invention. It is assumed that patent lawyers know what these differences are; but it is apparently too much to assume that the judiciary as a whole understands such refinements of terminology. The incongruous effects of *Crane v. Spitfire* fortunately were undone in a later case [2]—but not entirely.[3]

This example tends to point up the significance of language, particularly the technical terminology of patent law. Where determination of "legislative intent" becomes necessary, one of the first rules of construction is the "doctrine of literalness." Words are to be given their plain, ordinary meaning. But here such problems arise as that in *Crane v. Spitfire.* What is the plain meaning of "application" or "invention" (one of the prime troublemakers in this field) or "contributory infringement"?

1. Crane Packing Co. v. Spitfire Tool & Machine Co., Inc., 276 F. 2d 271, 125 USPQ 89 (7th Cir. 1960).

2. Union Asbestos & Rubber Co. v. The Paltier Corp., 298 F. 2d 48, 132 USPQ 219 (7th Cir. 1962). See also *Ex parte* Strassburger, 127 USPQ 417 (Bd. App.).

3. Union Asbestos v. Paltier Corp., *supra,* particularly the concurring opinion of Castle.

On one occasion I was asked about the latter by a congressman at a hearing on an earlier bill which eventually became Section 271 of the Patent Act. He asked me to compare contributory negligence with contributory infringement.[4] That was after three pages of testimony explaining the rudimentary principles of contributory infringement. Perhaps I was not doing very well, but a common fault of patent lawyers is to assume that general lawyers, judges, and congressmen know what patent lawyers are talking about.

The doctrine of literalness has the weakness of leading to misinterpretation, if the interpreter assumes a meaning different from that given to a term by the legislative drafter. True interpretation, therefore, requires that words in a statute be taken in the sense which the *writers* attached to them, unless the intent of someone other than the writer is sought.

Early Beginnings of the 1952 Act.

In the late 1940's there was discontent in the patent bar. The practical value of patents was being downgraded. The courts were, on the average, applying a too stringent test for "invention," and the Supreme Court in the *Mercoid* cases [5] virtually had eliminated the useful doctrine of contributory infringement by expanding the overriding misuse doctrine. In 1948, the New York

4. Hearings on H. R. 3866 Before Subcommittee 4 of the House Committee on the Judiciary, 81st Cong., 1st Sess., ser. 17, at 6 (1949).

5. Mercoid Corp. v. Mid-Continent Investment Co., 320 U. S. 661, 60 USPQ 21 (1944); Mercoid Corp. v. Minneapolis Honeywell Regulator Co., 320 U. S. 680, 60 USPQ 30 (1944).

Patent Law Association drafted and had introduced a bill to remedy the latter situation.[6] Other bills to establish some criterion or test for determining what constituted "invention" also were introduced.[7] The House Subcommittee on Patents, Trade-Marks, and Copyrights held hearings on these bills, but the 80th Congress adjourned without taking action on them. Similar bills were introduced in the 81st Congress,[8] and, again, the subcommittee held hearings. It was beginning to learn patent law and patent lawyers' problems.

It was a fortuitous circumstance that the same subcommittee (then known as Subcommittee No. 4 and later changed to No. 3) had jurisdiction over both patents and the revision of the laws. In its latter function it had charge of a comprehensive program to revise and enact into positive law all the titles of the U. S. code, nine of the 50 titles having been done. The last general revision of the patent laws had occurred in 1870, since which time some 60 amendments had been made. By reason of the dual function of the subcommittee, then under the chairmanship of Joseph R. Bryson of South Carolina, it became interested in codifying Title 35 of the patent laws.

How it actually came about was this: Charles J. Zinn, the committee's law revision counsel, had, from time to time, mentioned to P. J. (Pat) Federico of the Patent Office, who usually was its representative at hearings on bills and other legislative matters, the possibility of codification of the patent laws, suggesting that he would be

6. H. R. 5988, 80th Cong., 2d Sess.

7. H. R. 4061 and 5248, 80th Cong., 2d Sess.

8. H. R. 4798, 81st Cong., 1st Sess., "A Bill to Declare a National Policy Regarding the Test for Determining Invention"; H. R. 3866, "A Bill to Provide for the Protection of Patent Rights where Enforcement against Direct Infringers Is Impracticable, to Define 'Contributory Infringement,' and for Other Purposes."

called upon to do the spadework. On June 22, 1949, at the close of hearings on a "test for invention" bill,[9] members of the subcommittee asked two Department of Justice witnesses who had just finished testifying[10] whether they thought the subcommittee would be an appropriate group to take up a comprehensive study of the patent laws and the operation of the patent system. The witnesses expressed enthusiastic approval of the idea. Representative Goodwin commented,

> "Before you amplify it, let me say that what was in my mind was this fact that I fear some of my legal brethren back home, patent lawyers, knowing that I would never take a patent case in my life, would shudder a little if I were to sit in judgment on a problem of this nature."

Chairman Bryson observed,

> "We would, necessarily, rely on a staff, on a competent and sufficient staff to do the spade work."

9. H. R. 4798, *supra*.

10. The committee members were Representatives Joseph R. Bryson, chairman, Angier L. Goodwin (Mass.), Boyd Tackett (Ark.), and Edwin E. Willis (La.); and the witnesses were Roy C. Hackley, Jr., chief, Patent Section, Department of Justice, and John C. Stedman, Antitrust Division, Department of Justice. Shortly before the question was raised, Mr. Hackley had said (H. R. 4798, at 36):

> "There is much that this committee can do, I think, both by way of investigation and by possible major fundamental improvements in the system. . . . We would feel very much that the committee should get at the roots of the issue and then work out."

Committee Chairman Bryson then commented:

> "You might be interested to know, if you do not know already, that our chairman, Mr. Celler, feels very much the way you gentlemen have spoken this morning and has indicated his desire to have that work done. . . . He is very enthusiastic about it."

Representative Willis, now chairman of the Patents Subcommittee, said he hoped the witnesses might think about it and meet informally with the subcommittee some day to give their views about where to start.

The committee adjourned, and Mr. Federico who had been present went to lunch with Mr. Zinn and Committee Counsel C. Murray Bernhardt. He suggested to Mr. Zinn that maybe this would be an opportune time to codify Title 35—to do some amending and codifying at the same time. He indicated willingness, in case the committee wanted to proceed, to undertake to produce a draft or do something based on the codification aspect as well as to bring proposed changes for study. A few days later, Mr. Federico received a letter Mr. Bernhardt wrote on July 6, 1949, saying the committee requested him to undertake the preparation of "an overall patent revision bill" at his earliest convenience. Meanwhile, the committee suspended action on pending patent bills.

Mr. Federico went to Commissioner of Patents Kingsland about the matter and was told to go ahead and do anything he thought was right but not to show it to him, so that the Patent Office would be free—officially—to criticize any resulting bill. The Bureau of the Budget, which clears such things for administrative agencies, was consulted and said it would be all right for Mr. Federico to operate as a technical advisor or assistant to the House committee. Whereupon, during the next six months he proceeded to produce a proposed codification and revision, combining amending with codifying and at the same time including for consideration by the committee some more radical proposals, such as maintenance fees, patents of addition, etc.

By the end of November, 1949, he showed a draft to a few individuals for comment. I was one of them. Another, fortunately, was Henry R. Ashton, then president of the American Patent Law Association and, automatically,

chairman of the National Council of Patent Law Associations. At that time the National Council did little beyond supporting a legislative information service for its members —the two dozen regional patent law associations whose presidents were the council. Mr. Zinn, as codification expert in the House of Representatives, had read Mr. Federico's draft for form and arrangement. After incorporating the suggestions he had received from the people who saw the draft, insofar as he liked them, Mr. Federico rewrote the draft and gave it to the House subcommittee. That occurred early in January, 1950, six months after the subcommittee made the tentative suggestion about studying the matter.

Within two or three weeks, those who kept their ears to the ground in Washington had learned that the "Federico amendments to the patent law" would be printed by the House subcommittee and circulated to the patent bar. The president of the A. P. L. A. was a logical person to hear of this in his official capacity, but he also heard it through his partner, Alexander C. Neave, who had recently become chairman of the Patent Law and Practice Committee of the New York Patent Law Association, a post I had relinquished after two years. The function of that committee was to follow legislation and testify or comment as necessary. Mr. Neave had been in Washington talking to Paul Rose, his counterpart in the A. P. L. A., and heard of the forthcoming committee print. On January 23, he was reporting thereon to the president of the New York association and saying, "Henry Ashton tells me that he is intending to call a meeting of the National Council of Patent Law Associations very shortly, perhaps on February 8, to try to coordinate the efforts of the various associations with respect to Federico's amendments." The next sentence in the letter, from which I am quoting, is the beginning of a long chain of events culminating in my being

here today and being able to tell you this story. Mr. Neave said to Worthington Campbell, president of the New York Patent Law Association:

> "I do not know what your pleasure will be about representatives to that meeting, but if you should want me to go, I think it would be also desirable for Giles Rich to go because he was able to go over the draft when it was left up here by Mr. Frederico, which was at a time when I was so jammed up that I could not do it."

The Coordinating Committee.

The planned meeting took place on February 8, 1950. Twenty-three people were there, representing 17 patent law associations, from Los Angeles to Boston. Two things were done, according to a well-conceived plan. First, those present or designated alternates were constituted a Coordinating Committee. Second, upon the passing of a resolution to that effect, which also provided that a two-man Drafting Committee be appointed, following a successful precedent in trademark legislative effort, the chairman designated Paul Rose and Giles Rich to be that committee. That surprised me for, given time to consider, I probably would have begged off. Thus began, however, two and one-half years of one of life's more rewarding and educational experiences.

While the meeting was taking place, the so-called Committee Print of Subcommittee No. 4, which up to that time had been in the printing office, finally arrived. The "Federico amendments" thereupon became an official congressional utterance known as, "Proposed Revision and Amendment of the Patent Laws—Prelimanary Draft with Notes." The foreword by Representative Bryson stated,

> "The draft presented is intended primarily to serve as a basis for the expression of opinions. . . .

> All comments received before May 1, 1950, will be carefully considered for the preparation of a bill to be introduced on the subject."

The deadline was unrealistic but also elastic. A bill actually was introduced July 17, 1950.

The assignment given to the two-man Drafting Committee by the Coordinating Committee was to take the Committee Print and prepare from it a codification and revision which were "to contain only such changes in the existing patent laws on which, in the judgment of the said Drafting Committee, substantial agreement of the patent profession as a whole can be obtained." We could not do this according to our imagination. Every interested association and person in the United States was invited to study the draft—about two thousand copies of which went into circulation—and to send us suggestions, approvals, and disapprovals. And they sent them by hundreds. After digesting the materials received and exercising our own judgments thereon, we compiled lists of proposed changes on which we had the benefit of Mr. Federico's comments. We also had a virtual third member of the Drafting Committee in Mr. Ashton. After two months of this revision work, Messrs. Ashton, Rich, and Rose met in Washington to consolidate their ideas, with the assistance of Mr. Federico. These four became the basic working nucleus as well as great friends.

On April 14, 1950, the Drafting Committee's redraft of the Committee Print, a 57-page document, was in print, and 750 copies of this redraft were sent to Coordinating Committee members; that is, to the patent law and other associations whose legislative committees then became active.

The Patent Office Advisory Committee of the Secretary of Commerce met in Washington on April 24-25,

1950, and produced a report containing numerous suggestions which were piped into the Coordinating Committee. The next Coordinating Committee meeting was held in Washington May 9-10; 33 people were there, representing 25 different organizations. This was a sort of little congress of experts, operating by majority rule, guided and kept moving by Mr. Ashton as chairman. Out of that meeting came a second redraft, this time actually prepared in and agreed upon by the full Coordinating Committee.

The Coordinating Committee "draft" and other reports and material, technically, constituted suggestions to the House subcommittee. The bill it produced was the result of a consideration of the original Federico Committee Print and these suggestions. Ultimate decisions as to changes to make in the Committee Print were made by Chairman Bryson on the advice and recommendation of his staff, augmented by advisers.

On June 19-20, 1950, Messrs. Ashton, Rich, Rose, and Federico, together with Law Revision Counsel Zinn and Committee Counsel Bernhardt, worked at the final conversion into a bill of the second Coordinating Committee redraft. This mostly involved changes in organization and arrangement and taking care of irksome but necessary formalities. On July 17, the first actual bill was introduced by Representative Bryson, H. R.-9133 of the 81st Congress, 2d Session, which was almost over. Copies were sent to every registered patent agent and attorney and to many others.

This deliberate introduction of a bill at the end of a Congress was with the purpose of getting the proposed revision and codification—and thus was the bill labeled—into wide circulation in a form most likely to attract serious consideration by all interested parties. It had the

desired effect, and many associations put committees to work on it in earnest. Many associations held meetings, heard explanations on the bill, and considered it in detail. More criticism and suggestions came to the Drafting Committee. The Patent Law Association of Chicago did a particularly full report in six printed pamphlets totaling 65 pages.

The drafting group again repaired to Washington, after a summer and fall of activity, meeting on November 15-17, and whipped up a revision of H. R.-9133 on the basis of reports received to be used at another Coordinating Committee meeting in Washington on December 6-7, 1950.

The day before, on December 5, the drafting group met in Washington to plan the meeting. That day the full text of the Supreme Court's opinion in *The Great Atlantic and Pacific Tea Co. v. Supermarket Equipment Corp.*,[11] appeared in the *New York Times*. Because of its obvious importance and interest to this group in particular, the opinion was read. I have always felt that it clinched the determination to include in the bill what is now 35 U. S. C. 103, in order to get rid of the vague requirement of "invention." Such provision was in the Federico draft[12] and in H. R. 9133; but there was, too, a small faction in favor of leaving things as they were, with no statutory provision on the subject and the determination of the presence or absence of "invention" left entirely to the courts with no statutory guide or standard. The decision was otherwise.

Thirty persons were present on December 6-7, representing 24 organizations, with the participation of new House Committee Counsel L. James Harris, to whom had

11. 340 U. S. 147, 87 USPQ 303.

12. Section 23.

been assigned primary responsibility for matters relating to industrial property rights. Further revisions were agreed on, and questions left open were tackled a few days later at a meeting of committee counsel and drafters in New York, on December 18.

In January, 1951, representatives of the Departments of Justice, Navy, and Defense, including Captain George N. Robillard and T. Hayward Brown, met with Committee Counsel Federico and Rose on the problems they found in the Coordinating Committee's final product.

In March, the Patent, Trademark and Copyright section of the American Bar Association met in Washington for three days to discuss the bill. A transcript of its discussions and recommendations was sent to the House committee which had other letters and reports that were submitted directly. Messrs. Federico, Brown, Robillard, and Rose assisted the committee in sorting and considering all these suggestions. Mr. Bryson again made final decisions as to inclusions on the advice of his staff, augmented by these advisers.

On April 18, 1951, a new bill H. R. 3760 was introduced by Representative Bryson—H. R. 9133 being dead —and eventually hearings were announced for June. Before the hearings, Committee Counsel Harris expended considerable effort enlightening members of the full Judiciary Committee and seeking to interest them in the need for new laws. Many members, I am told, initially had little interest, experience, or desire to change the status quo.

The full Coordinating Committee, this time 30 persons representing 27 organizations, met for the last time, in Washington on May 22, to consider H. R. 3760, decided on a few changes to recommend in about 25 sections, voted to support the bill, and set up an Advisory Committee of about ten members to act at the forthcoming hearings. That small group gathered again on June 12, and the hearings were held for three days. They were published [13] in October, and they are now familiar legislative history. Mr. Zinn opened the hearings and explained the bill as part of a comprehensive program to revise and enact into positive law the titles of the U. S. code. Mr. Harris, as committee counsel, was in charge of arrangements for the hearings and was always present and available for consultation with the committee members—the usual arrangement. The Coordinating Committee chairman and representatives spoke with a united front on behalf of the patent bar, organized as never before or since. All who wished to have their say said it.

There ensued 11 months of what to the outside world seemed to be apparent quiet, during which, however, suggestions continued to come to the committee. The hearings were edited and published. Committee counsel studied them and discussed changes with individual Judiciary Committee members, the drafting group, and others. The duty of committee counsel is to inform the committee as to all comments and criticisms received. These were divided into categories according to type and importance.

At this point in the history, we reach the stage where the legislators actually function so as to express an "intent," or at least a choice, but proceedings are in the form of executive sessions of the subcommittee. What actually occurs is secret. It can be guessed at only by what comes out of the committee. "Ye shall know them by their fruits." [14] The bill, the hearings, the criticisms and comments that came later were first taken up in the private

13. Hearings on H. R. 3760 Before Subcommittee 3 of the House Committee on the Judiciary, 82d Cong., 1st Sess., ser. 9 (1951).

14. Matt. 7:16.

executive sessions of the subcommittee. The members, all lawyers, went over each section and decided what to do about it. This spread over many sessions, necessarily, considering the length of the patent act. In order to get the revision out before the session of Congress ended, Mr. Harris tells me that during this period he carried the draft into every subcommittee meeting, no matter what its purpose, and bit by bit each section was analyzed, discussed, and nursed to approval.

The next order of business was preparation of a committee report to accompany the bill from the Judiciary Committee to the House. This report is a 71-page pamphlet and contains ten pages of background and general description, the revision notes for each section,[15] the full text of all statutes repealed, parallel reference tables, etc. Reports do not write themselves. It was only natural that those who had most to do with writing the bill also should have had something to do with writing the report.[16] In fact, the report was drafted for the subcommittee, at its request, by Mr. Federico. Messrs. Ashton and Rich helped draft the "Revision Notes."

From the subcommittee, the bill and report went to the full Judiciary Committee, meeting in executive session, where Committee Counsel Harris presented it and was subjected to questioning. The subcommittee members were there, of course, and supported the bill. April 29, 1952, the full committee voted to approve it. This great historical event rated five lines in the *New York Times* the next day. The bill was ready to go to the House.

15. Reprinted in the USCA version of Title 35.

16. H. R. 1923, 82d Cong., 2d Sess. to accompany H. R. 7794, the latter being a new bill replacing H. R. 3760 and including numerous minor changes. The Senate report is substantially a copy of it except for mentioning a few minor Senate amendments, the principal one being the insertion in 35 U. S. C. 282(1) the words "or uninforceability."

On May 12, 1952, the bill, together with Report No. 1923, 82d Cong., 2d Sess., was submitted to the House. This report was on a bill entitled H. R.-7794—a new bill prepared to take the place of H. R. 3760 and to include the changes recommended in the latter by the subcommittee.

This ends the story of the writing of the bill. To go back now to the original thought—the "intent of Congress"—let me emphasize that members of the Congress wrote only a few words of the Patent Act. Committee counsel wrote certain sections and rearranged a few others. The Patent Act was written basically, however, by patent lawyers drawn from the Patent Office, from industry, from private practice, and from some government departments. They, in turn, drew upon the combined judgment of organizations of patent lawyers in a most remarkable way. They got the bill together, refined it, and presented it to the legislature to be enacted.

In presenting this specific episode, it is not intended to imply that to write laws in this way is unusual; rather it is believed to be the rule and not the exception. But it is doubtful that many laws receive such close scrutiny and careful attention of those most concerned as did the 1952 Act.

The Trademark Act of 1946, usually called the Lanham Act, was written in a similar way and was worked over by a coordinating committee. In fact, it was the example of that act which inspired Mr. Ashton to organize the Patent Act Coordinating Committee. For some strange reason, though Representative Bryson introduced all patent act bills and though he took an intense personal interest in and responsibility for their promotion, the new law never was referred to as the "Bryson Act."

The Enactment.

This story will be brought to a close by explaining the process of enacting this piece of legislation.

The naive are inclined to think of a Congress as composed of a House and a Senate, the members of which sit together and debate all laws which are being considered for passage. Sometimes they do. That is what gets into the newspapers. More often they do not.

The House of Representatives considered the patent bill, first of all, in its Subcommittee No. 4 of the Judiciary Committee. This group thought well enough of it to set it for hearings. The eight members of this subcommittee attended the hearings and inquired in great detail into every matter about which any substantial question was raised, eventually deciding as between opponents which side to support. It then reported the bill favorably to the full Judiciary Committee which, in turn, voted to report it favorably, with some changes, to the House of Representatives. While under committee consideration, every effort was made to compromise differences so as to remove as much controversy as possible about the bill and at the same time to preserve the substance. That is, such matters as mere changes in tone or wording and clarification of meaning.

Reported to the House of Representatives on May 12, the bill was put on the Consent Calendar [17] and passed on May 19. At the American Bar Association meeting, in the summer of 1962, in San Francisco, Mr. Crumpacker, a member of the House Subcommittee on Patents when this bill passed, recalled the circumstances as follows: [18]

> "A good 95% of the members of both bodies never knew that the legislation was under consideration, or that it had passed, let alone what it contained.

17. For an explanation of how the Consent Calendar works, see Zinn, "How Our Laws Are Made," at 10 (H. Doc. #136, U. S. Government Printing Office, Washington, D. C., 1961), an invaluable legislative manual.

18. "Symposium on Patents," *Summary of Proceedings, Section of Patents, Trademark and Copyright Law* (Chicago: American Bar Center, 1962), 141, 143.

> "In the House the bill went through on the Consent Calendar—along with, on the same day, dozens of other pieces of legislation. When it was reached on the calendar no questions were asked and no explanations were offered. There was not even an insertion in the record to explain the bill. The entire time consumed by the passage of the bill probably did not total 30 seconds. Only a handful of members—the members of the "Objectors' Committee" on the two sides of the aisle—were paying any attention to what was going on. How can the House, as a legislative body, be said to have had any 'intent' with respect to the bill?"

The bill then moved to the Senate where, again, it was approved by the Judiciary Committee of the Senate, accompanied by a Senate report—practically a duplicate of the House report—and was eventually taken up for passage on a Consent Calendar. There was a hitch there and a near miss which would be amusing if it had not so nearly defeated passage of meritorious legislation by a mere whim, also reported by Messrs. Crumpacker and Ashton at the San Francisco meeting mentioned above. The entire proceedings in the Senate, mostly procedural jockeying, on July 3-4 combined, do not occupy a full page in the *Congressional Record*.[19] Reporting on the exchange between Senators Saltonstall and McCarran, which has several times been quoted in court opinions, Mr. Crumpacker said,[20]

> ". . . this colloquy is almost entirely meaningless, it being merely an exchange of pleasantries by

19. S. Rep. No. 119 (1952) at 9226; S. Rep. No. 120 at 9534.

20. *Supra* note 18, at 145.

some senators having little, if any, familarity with the subject matter they were discussing." [21]

In short, there was no knowledgable debate on the bill in the Senate. The bill did pass on July 4.

The bill was so late in getting through the Senate that Mr. Harris personally carried it to the House floor where only by the narrowest margin did the House concur in four trifling Senate amendments. In the final moments of the session, the reading clerk was persuaded to include the bill

21. See *supra* note 19, at 9534. The reference is to the exchange cited, in part, in a few early opinions, rather unanalytically, between Senators Saltonstall and McCarran, the whole of which was:

"Mr. SALTONSTALL. Mr. President, will the Senator from Nevada tell us the purpose of the bill?

Mr. MCCARRAN. The bill would codify the patent laws of the United States. It is under the able guidance of the Senator from Wisconsin. (Mr. Wiley.)

Mr. SALTONSTALL. I am not a patent lawyer, but I know patents are a very technical subject. Does the bill change the law in any way or only codify the present patent laws?

Mr. MCCARRAN. It codifies the present patent laws. It passed the House, and it was approved by the Judiciary Committee of the Senate.

Mr. HENDRICKSON. Mr. President, as I recall, it was approved by the Judiciary Committee unanimously.

Mr. MCCARRAN. I think the Senator from New Jersey is correct.

Mr. President, I ask unanimous consent that a statement prepared by me may be inserted in the RECORD at this point.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:"

In that statement, Senator McCarran said, *inter alia*:

"In view of decisions of the Supreme Court and others as well as trial by practice and error there have been some changes in the law of patents as it now exists and some new terminology used. All these matters, as stated before, have been carefully gone over in hearings and the bill . . . represents, in the opinion of the committee, legislation of merit."

Any senator or representative who got as far as reading the title of the bill would see it was a bill "to revise and codify the laws."

by a sweating Mr. Harris standing at the Speaker's table. Messrs. Ashton, Federico, and others were waiting outside to see if he made it.

President Truman signed the bill on July 19, 1952, three years and one month after the first suggestion was thrown out that consideration might be given to studying the patent laws with a view to revising them.

Conclusion.

The foregoing will, it is hoped, cause you to pause and think when you hear or use the phrase "intent of Congress." Realistically, the "intent," with respect to the Patent Act of 1952, was the intent of a subcommittee to pass the bill prepared by the patent lawyers, as agreed to by codification counsel, committee counsel, and the members of the subcommittee. You need only compare the bill prepared by the Coordinating Committee with the law as enacted to see this. Presented to and approved by the full Judiciary Committee, the intent of the subcommittee which was charged with primary responsibility for both law revision and patent laws became the intent of the larger committee, not all of whose members were familiar with the details of the legislation. With this committee approval, the intent of the House of Representatives was to enact a law recommended to it by a responsible committee and in which the watchers of the Consent Calendar found nothing sufficiently controversial to give rise to objection or to require debate. Similarly in the Senate, that body relied on its committees and their recommendations, which committees, obviously, relied heavily on what took place in the House.

This is how it was done; and, it is submitted, if legislative intent is to be found anywhere in the legislative body, it is in the views expressed by committees as found in their hearings and reports. That one legislator, who

knows nothing of the details and who has only one vote, stands to ask one question of another legislator, who also knows nothing of the details and who gives a noncommittal answer, is no expression of "legislative intent." At most, it shows clearly the intent of not more than one or two men.[22]

By way of specific instance, one of the most sensitive spots in this piece of legislation was the subject of contributory infringement dealt with in Section 271.[23] After listening to and engaging in 24 printed pages of testimony on this difficult subject, Representative Rogers said:

> "I might ask one further question as to whether you think we have a very good chance of explaining all of this on the floor of Congress in trying to recodify the laws of patents?"

I hope I may be pardoned for quoting the next passage, since it mentions me; but on the question at hand—intent of Congress—I know of no more cogent statement on which to end. Again I quote the San Francisco speech of Mr. Crumpacker,[24] a congressman who actively participated in the hearings as a member of the patent subcommittee. He said:

> "When the courts, in seeking to interpret the language of the Act, go through the ritual of seeking to ascertain the 'intent of Congress' in adopting same, they would do well to look to the writings of these men—Federico, Rich, Harris, and the others—as they, far more than any member of the House or Senate, knew and understood what was intended by the language used."

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22. *Ibid.*

23. 35 U. S. C. 271 was § 231 of H. R. 3760, see *supra* note 13, at 150-175.

24. *Op. cit. supra* note 18.

FOR ARGUMENT.

Supreme Court, U.S.
FILED
APR 17 1980
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

No. 79-669

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION AND
CRYSTAL CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

REPLY BRIEF OF PETITIONERS

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REPLY BRIEF OF PETITIONERS

I. The Briefs of Rohm and Haas and the Amici are Dominated by Irrelevancies.

The arguments made by Rohm and Haas and its numerous amici supporters are in large part irrelevant because they fail to focus on the real issue in this case, being directed instead to questions which are outside the scope of the Question Presented in the Petition. This Question could have been stated in a variety of ways.

One example follows:

> Does §271(d) of the Patent Laws permit the owner of a method patent to condition licenses to practice the patented method on the purchase from him of a non-staple used in the practice of the patented method?

In their zeal to convince the Court that the Court of Appeals' decision in this case is correct, Rohm and Haas and several amici have presented their own Questions which raise issues outside the narrow scope of that presented by Petitioner. For example, Rohm and Haas' Question omits any reference to conditioning a license, monopoly on nonstaples or tying arrangements, and instead is directed to a non-existent compulsory licensing issue.

In addition, the arguments made are based almost entirely on erroneous assumptions. In order to properly evaluate these arguments it is helpful to bear in mind that:

(1) Rohm and Haas invented a method for using propanil, not propanil itself.

(2) Petitioners do not contend that it is misuse for Rohm and Haas to merely sell propanil and sue others who do so; the misuse is in conditioning licenses on the purchase of propanil, i.e., the coercion of users.

(3) Petitioners' position does not require reading a compulsory licensing provision into the law.

(4) The public policy, incentive and economic arguments which they make are as applicable to staples as to nonstaples.

As we shall show, when viewed with these points in mind, the arguments opposing Petitioners collapse.

II. The Only Issue in This Case is Whether it is Misuse for a Patent Owner to Condition a License to Practice a Patented Invention on the Purchase of a Nonstaple From the Patent Owner.

Major portions of the briefs supporting Rohm and Haas' position are devoted to arguments concerning whether the patent owner has the right to sue contributory infringers, or to sell nonstaples, or to withhold licenses from competitors. These are not issues in this case.

We do not contend that the sale of a nonstaple by the patentee is a misuse; we only contend that he can't use his patent to monopolize such sales.

We do not contend that the patentee cannot sue contributory infringers; we only contend that he cannot use such suits to coerce those who wish to use his invention into purchasing nonstaples from him.

We do not contend that a patentee is compelled to license others to sell nonstaples; we only contend that he cannot condition licenses to use his invention on the purchase from him of unpatented nonstaples.

Rohm and Haas can sell propanil with an implied license to use its patented invention, it can license others to sell propanil with such an implied license (or refrain from licensing others), and it can sue others who sell propanil without such an implied license, or it can do any combination of these without being guilty of misuse. But if it conditions a license to use the patented process on the purchase of propanil it is guilty of misuse.

There are many legitimate ways of profiting from the invention. Rohm and Haas and the amici reject most of these as "impractical" or "not realistic". The simplest procedure is by means of the commonly used "label license."[1]

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[1] See H. Einhorn, 14 *Business Organizations — Patents, Patent Licensing Transactions*, pp. 1-15 to 1-17 (1979).

Such a license, stated on a label or an invoice, advises the purchaser of the unpatented material that the price includes a prepaid royalty to practice the patented process, and that licenses may be obtained from the seller on equivalent royalty terms if the unpatented material is purchased from another source. Examples of such labels are in the Addendum. Rohm and Haas itself has used this method to exploit another process patent, *see Rohm and Haas Co.* v. *Owens-Corning Fiberglas Corp.*, 196 USPQ 726, 734 (N.D. Ala. 1977), and has obtained a court ruling that such a policy is not misuse. 196 USPQ at 743.

If Rohm and Haas adopted this procedure for its commercial exploitation of the Wilson patent it could license Petitioners and others, who would bear the burden of sublicensing users, and could also sue as contributory infringers those who furnished propanil without making sure that users were licensed. This would enable Rohm and Haas to profit from the royalty from licenses as well as from its sales of propanil, and there would be no misuse, because it would no longer be tying the license to the purchase of propanil.

Rohm and Haas argues that it is not guilty of tying licenses under its patent to the purchase of propanil, because the alleged tying is merely "the inevitable operation of the legal doctrine that purchasers from Rohm and Haas automatically receive authorization to practice the patented method" (RB 50). This, again, misconstrues the nature of the misuse. Misuse does not arise from selling propanil with the implied license nor from suing Petitioners nor from doing both. There would be no misuse if licenses were available to users other than with the purchase of propanil. It is the granting of a license with the purchase of propanil together with the *refusal* to grant a separate license which gives rise to the misuse. At least two courts of appeals which have considered this issue since the enactment of

§ 271 have agreed that this is misuse. *See Ansul Co.* v. *Uniroyal, Inc.*, 306 F.Supp. 541 (SD NY 1969), affd. 448 F.2d 872, 882, note 4 (2 Cir. 1971); *McCullough Tool Co.* v. *Well Surveys, Inc.*, 343 F.2d 381, 404-407 (10 Cir. 1965).

Nor is it of any importance that no *express* "conditioning" licenses have been granted. This Court held in *Leitch Mfg. Co.* v. *Barber Co.*, 302 U.S. 458, 462, 463 (1938), a case which Rohm and Haas does not contend was modified by §271, that this "is without legal significance". Relief was denied "on the broad ground that the owner of the patent monopoly, ignoring the limitation 'inherent in the patent grant', sought by its method of doing business to extend the monopoly to unpatented material used in practicing the invention". 302 U.S. at 463. That is what Rohm and Haas is doing here, an activity *not* excused by §271.

Rohm and Haas also seeks (RB 48, 49) to distinguish the facts of this case from those in antitrust cases involving tying arrangements. We are not concerned here with whether Rohm and Haas' activities violate the antitrust laws, and it is not necessary that Petitioners prove that the elements of an antitrust violation are present.[2] The question of misuse is not controlled by court decisions on the elements of an antitrust violation, but by decisions, cited herein and in our principal brief, on the limitation of the patent grant.

Insofar as this argument may be merely an attack on the use of the term "tying" to describe Rohm and Haas' activities, it is noted that this Court used that term to describe

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[2] It seems highly likely that all the elements suggested by Rohm and Haas (many of which would not be required) are present here. Petitioners were making substantial sales of propanil before the Wilson patent issued, Rohm and Haas' actions are an attempt to curb those sales, by an extension of the patent grant, and force buyers to quit buying from Petitioners, thereby destroying Petitioners' access to the consuming public, and this is effected by the coercion and leverage of the patent.

the identical activity in *Mercoid Corp* v. *Mid-Continent Investment Co.*, 320 U.S. 661, 666 (1944). Furthermore, such an argument is equally applicable to staples. If there is no tying here, there was none in *Carbice*[3], *Leitch* or *B.B. Chemical*[4].

Rohm and Haas' attempt to monopolize the sale of propanil cannot be justified by characterizing Petitioners' actions as malicious and wanton. Petitioners built a plant and began selling propanil long prior to the issue in 1968 of Monsanto's patent covering propanil. Believing that this patent was invalid, as it finally proved to be, they spent four years and thousands of dollars defending Monsanto's suit. They had only a brief respite before this suit was filed in 1974. Because they are convinced that Rohm and Haas has no more right to monopolize the sale of propanil than did Monsanto, they have spent six more years and many more thousands of dollars defending this suit. Petitioners' actions are no more malicious and wanton than those of any defendant urging a position he believes in (and which the district court held was correct), and no more malicious and wanton than Rohm and Haas' actions in continuing to sell propanil after it was sued by Monsanto.

III. The 1952 Patent Act Does Not Give a Patent Owner Exclusive Rights to Anything Other Than His Invention.

As we pointed out in our principal Brief, pp. 10-13, the scope of the patent grant is spelled out in §154, and is limited to the *invention* defined by the *claims* in accordance

[3] *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27 (1931).

[4] *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942).

with §112.[5] In enacting the 1952 Patent Act, Title 35 U.S. Code, Congress did not extend the scope of the patent grant.[6] Section 271, on the other hand, has to do with the right of the patent owner to *enforce* his patent grant. The purpose of subsections (c) and (d) was to codify the law of contributory infringement, which had been developed by the courts as an aid to prevent *direct* infringement (not, as Rohm and Haas contends, to allow the patentee to monopolize the sale of nonstaples).

[5] Rohm and Haas stops short of contending that the effect of §271(c) and (d) is to expand the scope of the patent grant beyond the claims, although that is the effective result of their position. Some of the amici are less reticent. See the brief on behalf of Society of University Patent Administrators and the Council on Government Relations, pp. 3-8, in which it is argued that the Court erred in *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917), in limiting the scope of the grant to the invention defined by the claims. The attempted analogy to infringement by equivalents fails because equivalents are expressly included within the scope of the claims by the third paragraph of §112. The absurdity of this argument becomes apparent with the realization that it means that the scope of the grant can only be ascertained by an examination of the states of mind of alleged contributory infringers, since only those who know that the nonstaple is intended for an infringement are contributory infringers. See § 271(c).

[6] Rohm and Haas erroneously contends (RB15) that the 1952 Act extended patent protection to the discovery of a method which is a new use for a known or old product. The courts had long recognized that such discoveries were patentable. This was only a clarification of existing law. See Hearings on H.R. 3760 Before Subcomm. No. 3 of the Comm. on the Judiciary, House of Representatives, 82d Cong., 1st Sess. (1951), pp. 37, 44 (1951 Hearings). Be that as it may, however, the 1952 Act does not permit the inventor of a new use to obtain a patent monopoly on the product itself, but only on the new use as a "process". *Globe Linings, Inc.* v. *City of Corvallis*, 555 F.2d 727 (9th Cir. 1977). Thus, in the course of agreeing with Rohm and Haas' contention that propanil itself was obvious, the district court in *Monsanto Company* v. *Rohm and Haas Company*, 312 F.Supp. 778 (E.D. Pa. 1970), aff'd. 456 F.2d 592 (3rd. Cir. 1972), cert. den 407 U.S. 934 (1972), stated, at p. 789, that "an old product with a new use cannot be patented but rather the

There is agreement by all who have filed briefs herein that §271(c) and (d) came about as a result of the decisions in the *Mercoid* cases, *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944), hereinafter *"Mercoid I,"* and *Mercoid Corp.* v. *Minneapolis-Honeywell Reg. Co.*, 320 U.S. 680 (1944), hereinafter *"Mercoid II"*.[7] Those cases found patent misuse by one who *sold* a nonstaple, *licensed* others to sell the nonstaple, and *sued* one who contributorily infringed by selling the nonstaple. It was feared by many that courts would construe the *Mercoid* cases to prohibit these activities. Thus, §271(d) provides that a patent owner "otherwise entitled to relief" shall not be deemed guilty of misuse by reason of his having *sold* a nonstaple, *licensed* another to sell a nonstaple, or *sued* one who contributorily infringed by selling the nonstaple.

But the *Mercoid* cases involved more than this. The Court held in *Mercoid I*:

> [T]his Court has consistently held that the owner of a patent may not employ it to secure a limited monopoly of an unpatented material used in applying the invention.

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new use must be patented". Yet Rohm and Haas now contends that § 271 permits the inventor of a new use to do indirectly what § 100 does not permit him to do directly: obtain a patent monopoly on the product itself.

[7] Rohm and Haas attacks the Justice Department's presentation of the *Mercoid* cases as a "misleading summary", but the only error alleged is as to when Mercoid was offered a license (RB 24, 25). Justice erred only in its citation, which should have been to the Court of Appeals' opinion at 133 F.2d 803, 810 (7 Cir. 1942). Rohm and Haas itself is wrong in saying no licenses were offered to competitors for many years. Mercoid was offered a license by the patent owner before the license to Minneapolis-Honeywell, and Minneapolis-Honeywell licensed one competitor one year and seven months after receiving its own license, 43 F.Supp. at 694, Findings 12 and 13, and offered Mercoid a license three years later, five years before suing Mercoid (but after it had sued Mercoid's customer). 43 F.Supp. 695, Finding 16.

* * *

> [T]he limits of the patent are narrowly and strictly confined to the precise terms of the grant . . . . It is the protection of the public in a system of free enterprise which . . . denies to the patentee . . . the power to use [his patent] in such a way as to acquire a monopoly which is not plainly within the terms of the grant . . . The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use . . . . [The patent] is limited to the invention which it defines.

320 U.S. at 664, 665, 666. The Court pointed out that if the patentee were allowed to tie something else to his invention, "the mere act of the patentee could make the distinctive claim of the patent attach to something which does not possess the quality of invention". 320 U.S. at 666. The Court made it clear that it made no difference that the unpatented part was a nonstaple.

In *Mercoid II*, the Court stated:

> However worthy it may be, however essential to the patent, an unpatented part of a combination patent is no more entitled to monopolistic protection than any other unpatented device . . . . [A] patent on a combination is a patent on the assembled or functioning whole, not on the separate parts. The legality of any attempt to bring unpatented goods within the protection of the patent is measured by the antitrust laws not by the patent law.

320 U.S. at 684.

These rules were not new in the *Mercoid* cases. The activities condemned there were not permitted in 1917 when the *Motion Picture* case was decided, nor in 1931 when *Carbice* was decided, nor in 1938 when *Leitch* was decided,

and they were labeled a misuse in 1942 when *Morton Salt*[8] and *B.B. Chemical* were decided.

There is no basis for the argument that the misuse doctrine as thus defined in the *Mercoid* cases has changed since this Court's decision in the *Motion Picture* case. Neither in that case nor in any of the others cited in the preceding paragraph did the Court make any distinction as to its applicability to nonstaples as opposed to staples, but in fact the Court *rejected* such a distinction in at least the *B.B. Chemical* case[9] before the *Mercoid* cases were decided. Patent owners were not convinced, however, so it was necessary in the *Mercoid* cases to hold that the rule is applicable to nonstaples as well as to staples.

Nor was the doctrine of misuse as so enunciated in the *Mercoid* cases changed in the 1952 Patent Act. Nowhere in that Act has Congress provided that

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[8] *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488 (1942).

[9] Astonishingly, Rohm and Haas still insists that B.B. Chemical did not involve a nonstaple, and even resorts to a misleading reference to the district court opinion to support its position (RB 23, note 10). The plaintiff and the defendant in that case sold not only the adhesive alleged to be a staple, but also precoated duck specially designed for use in the patented process and machines designed to practice the process. *B.B. Chemical Co.* v. *Ellis*, 32 F.Supp. 690, 694, 695 (D.Mass. 1940). Both the district court and the court of appeals specifically considered and rejected the argument that the rule prohibiting the conditioning of a license on the purchase of unpatented materials was limited to *staple* materials. 32 F.Supp. at 697, and *B.B. Chemical Co.* v. *Ellis*, 117 F.2d 829, 834, 835 (1 Cir. 1941). The court of appeals concluded: "There is every indication that the *Carbice* and *Leitch* cases apply to specially designed nonpatented articles." 117 F.2d at 835. Finally, respondent therein argued to this Court: "The doctrine of the Carbice Corp. and Leitch Mfg. Co. cases is not limited to the sale of staple materials." 86 L. Ed. 367, 368. This Court's failure to mention the point in *B.B. Chemical* merely emphasizes that the rule was the same whether staples or nonstaples were involved.

(1) the owner of a patent may employ it "to secure a limited monopoly in an unpatented material used in applying the invention", nor that

(2) the limits of the patent extend beyond the terms of the grant, nor that

(3) the patentee may use his patent in such a way as to acquire a monopoly which is not plainly within the terms of the grant, nor that

(4) the fact that the patentee has the power to refuse a license enables him "to enlarge the monopoly of the patent by the expedient of attaching conditions to its use", nor that

(5) a patentee may by his own act "make the distinctive claim of the patent attach to something which does not possess the quality of invention", nor that

(6) it makes any difference whatsoever in the application of *these* rules that the unpatented part is a nonstaple, nor that

(7) the antitrust laws do not apply to an attempt to bring unpatented nonstaples within the protection of the patent.

These are the rules that govern whether or not misuse exists. If it had been the intention of Congress to negate the applicability of these rules where nonstaples are involved, surely it would have taken the direct approach of enacting a statute which explicitly states that the patent grant includes the exclusive right to sell nonstaples, or which states that conditioning a license on the purchase of nonstaples is not a misuse. As in *Schwegmann Bros.* v. *Calvert Distillers Corp.*, 341 U.S. 384, 392 (1951), if that were the intention, it is "strange indeed" that the one clear provision that would have accomplished that result was omitted. It

would have been easy to include within the exceptions of § 271(d): "(4) conditioned a license to use his invention on the purchase of a nonstaple used in the practice of the invention," or to include in the grant of §154 "the right to exclude others from selling nonstaple components of the invention", or to include in §112 that "a claim shall be construed to cover nonstaple components of the invention". But Congress did not enact any such statute. In fact, no one even *asked* Congress to enact any such statute.

Yet, Rohm and Haas and the amici contend that §271(d) should be construed to abolish the *Mercoid* Court's clear statements of the law of misuse as it is applied to nonstaples. This subsection makes no mention of any of the misuse rules quoted supra at pp. 8 and 9. It does not even grant the *right* to do the specific acts mentioned in the statute; it merely states that if the patent owner is "otherwise entitled to relief", those specific acts shall not be deemed to be misuse. Even these acts are not excused if the patent owner is not entitled to relief for some other reason, e.g. if he is guilty of one of the acts condemned in the *Mercoid* cases. The statute does not give an unconditional right to sell the nonstaple nor the unconditional right to sue contributory infringers. If these two acts are combined in such a way as to result in the conditioning of a license, the tying and the monopoly condemned by the *Mercoid* cases and their predecessors, the statute provides no exemption and the patent owner is guilty of misuse.

Under the common law, Rohm and Haas has the right to sell propanil, and under the patent law it has the right to license others to use its patented invention. But it has no more right to condition one of these on the other than anyone else has to condition the sale of one commodity on the purchase of another.

Thus, nothing in the plain words of §271(d) excuses Rohm and Haas' conduct; to the contrary, the statute explicitly acknowledges that even one who performs the stated acts may not be "otherwise entitled to relief". There is no "clear and certain signal from Congress" that an extension of the patent grant is intended. *Deepsouth Packing Co.* v *Laitram Corp.*, 406 U.S. 518, 531 (1972).

IV. Rebuttal to Rohm and Haas' Arguments on Legislative Intent.

1. It is the intent of Congress, not the intent of witnesses before Congressional Committees, which is of importance.

The requirement for a "clear and certain signal from Congress" places a heavy burden on Rohm and Haas to show that Congress intended to change the law of the *Mercoid* cases and to partially repeal the antitrust laws by enlarging the patent monopoly.

Both the plain meaning of the 1952 Act and the most important part of its legislative history, the Committee Reports, show that Congress did not intend to do so. Rohm and Haas, by ranging far and wide through, and beyond, the legislative history, attempts to support the contrary conclusion by strained reasoning based upon a smattering of evidence of wholly ambiguous import which it purports to find in the legislative history.

This Court has recognized that where there is such ambiguity in the legislative history, the statute itself must be the primary guide to legislative intent. *Citizens to Preserve Overton Park, Inc.* v. *Volpe,* 401 U.S. 402, 412 fn. 29 (1971). Moreover, "The plain words and meaning of a statute cannot be overcome by a legislative history, which, through strained processes of deduction from events of

wholly ambiguous significance, may furnish dubious bases for inference in every direction." *Gemsco* v. *Walling,* 324 U.S. 244, 260 (1945); *see National Labor Relations Board* v. *Plasterers' Local Union No. 79,* 404 U.S. 116, 129 fn. 24 (1971). Petitioners' position is consistent with these cases. It asserts only that the plain meaning of Section 271 should control, and that the contrary construction which Rohm and Haas attempts to place upon it by dubious inferences from the legislative history has not, should not, and can not, overcome this.

Rohm and Haas' burden is therefore made heavier, for "repeals by implication are disfavored", *Regional Rail Reorganization Act Cases,* 419 U.S. 102, 133 (1974), and unprecedented departures from precedent should not rest on mere inference. *Transcontinental & Western Air, Inc.* v. *Civil Aeronautics Board,* 336 U.S. 601, 607 (1949). Furthermore, there are grave doubts that the construction of the statute which they seek is within the constitutional authority of Congress to grant inventors the exclusive right to their "discoveries". U.S. Constitution, Art. I, Sec. 8, cl. 8; *see* the dissenting opinion of Justice Black, speaking for four members of the Court, in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.,* 377 U.S. 476, 522 (1964). Rohm and Haas did not "discover" propanil. If the statute is considered to be ambiguous, "construction should go in the direction of constitutional policy". *United States* v. *Johnson,* 323 U.S. 273, 276 (1944).

Rohm and Haas attempts to meet its burden by relying, first, upon testimony at Hearings conducted in regard to earlier unsuccessful attempts, in earlier Congresses, to revise the patent statutes to include the law of contributory infringement.[10]

[10] Hearings before Subcomm. on Patents, Trademarks and Copyrights of the Comm. on the Judiciary, House of Representatives, 80th Cong., 2nd Sess. on H.R. 5988 (hereinafter 1948 Hearings); Hearings before Subcomm. No. 4 of the Comm. on the Judiciary, House of Representatives, 81st Cong., 1st Sess. on H.R. 3866 (hereinafter 1949 Hearings).

In support of its position that this testimony should be given weight, Rohm and Haas has cited decisions in which the Court, in seeking to resolve statutory ambiguities, has made reference to interpretations placed by the sponsor of a bill on the same language in a previous bill, *United States* v. *Emmons,* 410 U.S. 396, 404, note 14 (1973), and has found the history of previous bills relevant when the history of the act passed is silent on the matter, *Transcontinental & Western Air, Inc., supra,* 336 U.S. at 605, note 6. However, no case has been cited which relied on the testimony of witnesses at hearings on earlier bills. The unreliability of such testimony is pointed up by this Court's reluctance to depend upon even a House committee report on a bill which did not pass, *Schwegmann Bros.* v. *Calvert Distillers Corp.,* 341 U.S. 384, 392-394 (1951), and by the reaffirmation, in *Red Lion Broadcasting Co.* v. *Federal Communications Commission,* 395 U.S. 367, 381, note 11 (1969), that "unsuccessful attempts at legislation are not the best of guides to legislative intent."

Second, Rohm and Haas relies upon articles published by Rich and Federico sometime after passage of the 1952 Patent Act. (RB 28, 43, 44) These articles are not part of the legislative history and should not be considered at all, since later statements, reports, and publications, even by the legislators themselves, are not part of the legislative history. *Oscar Mayer & Co.* v. *Evans,* 441 U.S. 750 (1979); *Regional Rail Reorganization Act Cases,* 419 U.S. 102, 132 (1974); *Ramspeck* v. *Federal Trial Examiners Conference,* 345 U.S. 128, 143, fn. 9 (1953). Third, and foremost, Rohm and Haas relies on testimony by Mr. Rich and representatives of the Justice Department before the Committee on the Judiciary of the House of Representatives

during consideration of the patent codification bill which resulted in Title 35 (RB 37-43). It has been said, in an opinion joined by Judge Rich himself, "Statements made in briefs or in testimony presented at committee hearings cannot be considered as a guide to what Congress intended, since Congress has not delegated to organizations or individuals appearing before its committees the authority to construe a statute." *United States* v. *Fairfield Gloves,* 558 F.2d 1023, 1027 (CCPA 1977). *See also Austasia Intermodal Lines, Ltd.* v. *Federal Maritime Commission,* 580 F.2d 642 (DC Cir 1978). Rohm and Haas cites *Ernst & Ernst* v. *Hochfelder,* 425 U.S. 185, 203 (1976) as supporting its position on the significance of Mr. Rich's testimony. But in that case the Court found the intent of Congress to be unmistakable from the language of the statute itself, and the testimony referred to was only one of several references which supported that finding. Here, Rohm and Haas seeks to use such testimony to imply an intent not even suggested by the plain words of the statute. Nor can any benefit be derived from the testimony of the Justice Department, who opposed § 271. Statements by opponents are "no authoritative guide to the construction of legislation." *National Labor Relations Board* v. *Fruit and Vegetable Packers and Warehousemen, Local 760,* 377 U.S. 58, 66 (1964). *See Holtzman* v. *Schlesinger,* 414 U.S. 1304, 1312 n. 13 (1973) (per Mr. Justice Marshall as Circuit Justice).

The decisions[11] relied upon by Rohm and Haas (RB 45) are inapposite because the "opponents" referred to in those decisions are not mere witnesses, but members of Congress expressing their views to the Congress, and because, as we shall show, the witnesses for and against § 271 did not agree that Rohm and Haas' interpretation of the statute

[11] *State of Arizona* v. *State of California,* 373 US 546, 571, note 52 (1963); and *First National Bank of Logan, Utah* v. *Walker Bank and Trusi Company,* 385 US 252, 261 (1967).

is correct. Rohm and Haas has cited no decision which placed sole reliance, or even primary reliance, upon testimony of a witness in interpretation of a statute.

In its reliance on testimony on earlier bills, conflicting testimony on the bill which was passed, and subsequently published articles, Rohm and Haas ascribes to them an importance which they do not have. The most reliable indication of the intent of Congress with respect to § 271 is found in the statute itself, which gives no indication of an intent to change the law to allow conditioning a license on the purchase of nonstaples, or to make an exception from the antitrust laws. Cf. *Schwegmann Bros., supra,* 341 U.S. at 388-390. If there is any ambiguity, reference should first be made to the Committee Reports,[12] which show what the congressional committees distilled out of the voluminous testimony. Such carefully considered reports are entitled to more weight than even floor debate. *United States* v. *International Union,* 352 U.S. 567, 585, 586 (1957). These reports show no intention to make the changes contended for by Rohm and Haas.

2. Neither the testimony before the House Committee which approved § 271 nor the Committee Reports indicate an intention to change the law to approve conditioning a license on the purchase of nonstaples.

The misuse we are concerned with is the conditioning of a patent license on the purchase of a nonstaple, thereby tying the license to the nonstaple and effecting a monopoly in the nonstaple. There is no contention that a patent owner cannot sue contributory infringers or that he cannot himself sell nonstaple components of his invention. It is to

[12] Reports of the House and Senate Committees on the Judiciary on Section 271, H.R. Rep. No. 1923, 82d Cong., 2d Sess. (1952), hereinafter "H.R. Report," and S. Rep. No. 1979, 82d Cong., 2d Sess. (1952), hereinafter "Senate Report".

these latter matters that most of Rohm and Haas' references to the legislative history refer.

Rohm and Haas relies principally on the testimony of one witness, Giles Rich. If is true that some of his testimony on the rejected 1948 and 1949 bills which he coauthored seem to indicate a desire on his part to allow a patent owner to predicate the right to use an invention on the purchase of a nonstaple. But Mr. Rich was only one, although perhaps the most vocal, of many proponents of these bills, and the overall import of all the testimony is that the intent was to eliminate the confusion generated by the *Mercoid* decisions and to clarify the law of contributory infringement.

A statement by Mr. Byerly, another of the authors of the bills, is typical:

> The fundamental purpose of the bill, I think, is to clarify a very dangerous situation which exists in the law as a result of the decision in the Mercoid case . . . [T]he court was very indefinite as to what it had done to the law of contributory infringement.

1948 Hearings at 12.

In any event neither of the 1948 or 1949 bills was reported out by the respective committees, and the question was not considered again until 1951 when it was rewritten, this time by the subcommittee itself (1951 Hearings at 152), and included in a general codification of the patent laws (1951 Hearings at 20, 21).

In 1951, Mr. Rich made reference to the 1948 and 1949 Hearings, but rather than rely on the testimony in those Hearings, chose to start at the beginning in his explanation of the purpose and meaning of §271. 1951 Hearings at 150-162. It appears that Mr. Rich may have personally been

of the opinion that a patentee should be able to tie patent licenses to the purchase of nonstaples, but, particularly after the 1949 Hearings, may have come to believe that Congress would not accept such a position, for which reason he did not bring it to Congress' attention in the 1951 Hearings. The emphasis of this testimony is that the purpose of §271(c) and (d) is to clarify the continued existence of the doctrine of contributory infringement and "alleviate the confusion which has arisen as a result of the Mercoid case" (1951 Hearings at 152, 155, 158-160[13]), confusion which had led at least one court to hold that the mere filing of a suit for contributory infringement was misuse. He did not repeat the statements made in the 1949 Hearings indicating a desire to allow patent owners to monopolize nonstaples, and in response to direct questions he avoided making any such statements. Mr. Rogers, one of the subcommittee members, made reference to the Department of Justice testimony:

> Mr. Rogers: You know their thinking in the matter. It might lead to further antitrust violations, or monopolies. Have you any comment in that regard?
>
> Mr. Rich: I do have comments on the statement, with which I do not agree with respect to its conclusions. I do not agree that this section, if enacted, would extend the law of contributory infringement.

1951 Hearings at 158.

On at least three other occasions, summarized in an Addendum to this Reply Brief, a clear opportunity was pre-

[13] At RB 39 Rohm and Haas, by omitting part of a statement by Mr. Rich, makes it sound like Mr. Rich told the committee that it was intended to reverse the Court's holding in *Mercoid* that where there is a conflict between the misuse and contributory infringement doctrines the misuse doctrine must prevail. The portion omitted, however, shows that Mr. Rich said that the purpose of paragraph (d) was to insure the right to enforce a patent against a contributory infringer.

sented for Mr. Rich to restate his opinions expressed in 1949, and in each case he failed to do so.

The fact that the subcommittee members repeatedly returned to the question emphasizes their concern, and the Committee Reports prepared after completion of all the testimony shows that there was no intention of such a major change in the patent law as contended for by Rohm and Haas. With respect to paragraphs (b), (c) and (d) of §271 these Reports state: "These paragraphs have as their main purpose clarification and stabilization." HR Report at 9, Senate Report at 8. In commenting on (d) the reports adopt Mr. Rich's suggestion aimed at eliminating the Justice Department's objections (1951 Hearings at 175), stating that this paragraph "provides that one who *merely* does what he is authorized to do by statute is not guilty of misuse of the patent". HR Report at 9 (emphasis added).[14]

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[14] In its effort to build a credible legislative history to support its view of Section 271, Rohm and Haas has even resorted to distortion of the printed word. By omitting words in the House Report Rohm and Haas made it sound as though it reflected an intent to *change the law* of contributory infringement (RB 27). The entire quotation, however, makes it clear that the purpose was to *incorporate* the law of contributory infringement into the statute, i. e. there was a change in the *statute*, not in the *law*. The full quotation, with parts omitted by Rohm and Haas in italics, is as follows: "Although the principal purpose of the bill is the codification of Title 35, *United States Code, and involves simplification and clarification of language and arrangement, and elimination of obsolete and redundant provisions*, there are a number of changes in substantive statutory law. *These will be explained in some detail in the revision notes keyed to each section which appear in the appendix of this report.* The major changes or innovations in the title consist of *incorporating a requirement for invention in §103 and* the judicial doctrine of contributory infringement in §271." HR Report at 5, Senate Report at 4. This Court held in *Graham* v. *John Deere Co.*, 383 U.S. 1, 17 (1966) that Congress did not intend to change the law on the level of patentable invention. There is no more indication of an intent to change the law of contributory infringement or of misuse.

The Court should look to the intent of Congress, and not of witnesses before Congressional Committees, to determine whether there was a "clear and certain signal" as required in *Deepsouth*. There is nothing in the legislative history to support Rohm and Haas' position that the statute was intended to change the scope of the patent grant as stated in the *Motion Picture* case 35 years earlier.

Surely Senator McCarran would not have stated that the Patent Act "codifies the present patent laws" (98 Cong. Rec. 9323, July 4, 1952) if he had believed it was intended to change the scope of protection afforded patentees.

Surely the Reports of the House and Senate Committees on the Judiciary would not have stated that the main purpose of §271 was "clarification and stabilization" if the members of these committees had intended to reverse the holding of this Court that it is misuse to condition a patent license on the purchase of an unpatented nonstaple from the patent owner.

The question of the meaning and effect of Section 271 has engendered more commentary than perhaps any other area of the patent laws. Significantly, a large majority of these commentators agree with Petitioners' analysis:

1. In *Contributory Infringement and Misuse — The Effect of Section 271 of the Patent Act of 1952*, 66 Harvard L.Rev. 909, 917 (1953) the author concludes that neither the language of Section 271 nor its legislative history compels an interpretation which would allow the restriction of competition condemned in the *Mercoid* cases.
2. *Regulation of Business — Patents — Effect of Section 271 on the Doctrine of Contributory Infringement*, 55 Mich. L. Rev. 1151, 1159 (1957) reaches the same conclusion.

3. The author of *Section 271(b) of the Patent Act of 1952: Confusion Codified,* 66 Yale L. Jour. 132, 137 (1956) agreed that tying arrangements are not excused in 271(d).

4. Michael D. Nelson, in *Mercoid-Type Misuse is Alive,* 56 J. Pat. Off. Soc. 134, 139 (1974) analyzed cases decided *after* §271 was adopted and concluded that alternative licenses must be offered, at a reasonably comparable royalty.

5. Joseph Scafetta, Jr., in *The Constitutionality/Unconstitutionality of the Patent Infringement Statute,* 59 J. Pat. Off. Soc. 665, 676 (1977) argues that it was within the constitutional authority of Congress to allow suits against contributory infringers as long as the patentee is not "trying to drive business to himself" in the nonstaple component.[15]

V. Compulsory Licensing Is Not an Effect of a Finding of Misuse in this Case.

Rohm and Haas and the amici supporting them argue vociferously that the effect of holding the activities of Rohm and Haas to be misuse is to infer that the patent laws require compulsory licensing, and they point to the failure of Congress to enact various limited compulsory licensing laws.

If what we seek here is "compulsory licensing", then it is no more so than that which was the necessary result in the *Carbice, Leitch, Morton Salt* and *BB Chemical* cases, all of which held that the patentee could not condition his license on the purchase of unpatented material, and no more than that which is encountered by the owner of a

[15] In this article, Mr. Scafetta appears to have reversed his conclusion two years earlier that the nonstaple is within the invention. J. Scafetta, *Ten Years After Aro II: The Effect of Patent Act §271 on the Patent Misuse Doctrine,* 26 S.Ca. L. Rev. 539, 585 (1975), reprinted in 58 J. Pat. Off. Soc. 69 (1976).

method patent today who sells *staples* for use in practicing the method. Rohm and Haas is not compelled to license its patent any more than were the patentees in these cases nor any other patentee. It is only compelled to grant *legal* licenses, licenses not conditioned on the purchase of propanil. Rohm and Haas does not deny that it would be misuse for a patentee to condition a license on the purchase of a staple. So Rohm and Haas' argument really is that "compulsory licensing" is all right for the patentee who happens to sell staples but not all right for the patentee who decides to sell nonstaples. It is no more harsh to compel licensing of a patented invention which uses a staple than one which uses a nonstaple.

But "compulsory licensing" is an inappropriate term for what we seek here. All we are asking is that Rohm and Haas not be allowed a greater reward from the patent statutes than any other patentee, merely because it has chosen to sell a nonstaple material used in the practice of its invention rather than to practice the invention itself or grant royalty-bearing licenses to others to do so.

There are really only two ways for a patentee to profit from his invention — practice it himself or license someone else to do so. Some patentees choose one, some the other, and some do both. None of them, not even Rohm and Haas, is compelled to do either. They can withhold their invention entirely, if that is their wish. Or they can license some and refuse to license others. The one thing they cannot do is *condition* their licenses on the purchase of unpatented materials, because that creates a monopoly in the marketing of the unpatented material.

Rohm and Haas objects that it is not practical to license thousands of rice farmers or hundreds of applicators, and that the method it has chosen is the only practical way for it to profit from its invention.

This argument was rejected by this Court in *B.B. Chemical,* 314 U.S. 495, 498, and again in *Mercoid I,* where it was said:

> The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly.

320 U.S. 661, 666. Nothing in the 1952 Patent Act changed *that* rule of law.

Furthermore, large chemical manufacturers like Rohm and Haas who discover uses for chemicals are not the only ones who find it impractical to practice their inventions themselves. Whenever anyone makes an invention which he personally cannot or does not wish to practice, whether because of lack of skill, lack of money, or lack of desire, his only alternatives are to license someone else to practice it or put it on the shelf. This is not compulsory licensing, but choosing the most desirable alternative the law provides.

This "practicality" argument is in fact a sham, for, as Rohm and Haas and amici well know, owners of process and combination patents who do not themselves perform the process or sell the combination commonly utilize label licensing as a legitimate means of exploiting the patent. See pp. 3, 4, supra.

Neither Rohm and Haas nor any amicus has given any reason why Rohm and Haas cannot adopt the label license method for its sales of propanil to derive legitimate revenue from its invention in the use of propanil. The fact is that there is no reason. Contrary to the suggestions of some amici that this would raise the cost to farmers, because of the increased paper work required, it is submitted that any increased cost would be negligible, and would be absorbed by competitors of Rohm and Haas who would sell the propanil and handle the licensing transactions. There

would be no need for farmers to sign a license agreement, keep records, make reports, forward royalty payments or subject themselves to audits (RB 53, 54). This would all be done by the suppliers of propanil.

Nevertheless, Rohm and Haas would still have a cause of action for contributory infringement against those competitors who refused to handle the licensing transactions, because they would be supplying propanil to infringers. Section 271(d) would be effective for what was intended — to allow the patent owner to market nonstaples while suing those who contributorily infringe.

Rohm and Haas chose not to practice its invention; no one compelled it to do so.

Rohm and Haas chose to license those who purchase propanil from Rohm and Haas; no one compelled it to do so.

Rohm and Haas chose to refuse licenses to those who wish to buy propanil elsewhere; no one compelled it to do so.

Rohm and Haas is in a dilemma of its own making.

VI. The Economic, Incentive and Public Policy Arguments Made Are Equally Applicable to Staples.

Rohm and Haas and the several amici argue that reversal of the Court of Appeals' decision would discourage innovation in finding uses for materials which have no known use, because of the high cost of making and developing such discoveries. We certainly have no quarrel with the concept of encouraging innovation, and it is certainly true that the granting of monopolies for innovation is a strong incentive. That is what the patent law is all about. Incentive to innovate would also be enlarged, however, by granting patents on improvements which do not involve invention, cf. *Graham,* supra, or upon mere algorithms, cf. *Parker* v. *Flook,* 437 U.S. 584 (1978) and *Gottschalk* v.

Benson, 409 U.S. 63 (1972). But the exclusive rights granted are those specifically set forth in the statute; Congress has determined how much incentive should be given for innovation.

Rohm and Haas' arguments on the effect on innovation are based on the false premise that researchers concentrate on chemicals which have no known use. There is no basis for such an assumption. If there were any substance to it, surely Rohm and Haas and the amici, with their vast resources and access to studies and reports, would have brought it to the Court's attention. The American Chemical Society's brief, in discussing random screening programs and directed research (pp. 8, 9), emphasizes that the contrary is true; researchers screen known compounds prepared for other purposes, and new compounds. As this brief points out: "Where the search for biological activity, whether random or directed, will lead cannot be determined in advance" (p. 11).

The fact is that researchers do not concentrate on either chemicals with known uses or those without known uses. The focus of the researcher is to find a chemical with a certain desired effect, and in doing so they may screen thousands of chemicals (RB 60, note 23), including those with known uses and those without.

Since the researcher cannot know in advance whether his research will lead to a staple or a nonstaple, the reversal of the Court of Appeals' decision is likely to have little effect on this area of innovation. Surely these large companies who conduct this research will not abandon their discoveries when they have found new uses for *staple* chemicals.

The Patent and Trademark Office Official Gazette of March 11, 1980, lists over 150 chemical process patents,

issued in one week. Probably most of these utilize materials which have other known uses. Yet the lack of a monopoly on these materials did not prevent these inventors from going forward with their inventions.

It is not reasonable to assume that the expectation of a monopoly in the market for a nonstaple unpatented material is a significant incentive to the discovery and development of new uses. Researchers can have no assurance that such a monopoly will continue for the full 17 year patent life, or for any time at all, because the monopoly could continue only until someone discovers *another* use for the material, and that could occur at any time. Such an ephemeral benefit could have little impact on innovation.

Ultimately Respondent's arguments amount to a contention that the inventors of new uses for nonstaple compounds are entitled to a greater reward than the inventors of new uses for staple compounds. There is nothing in the statute, the decisions of this Court, public policy, or common sense which supports such a distinction. There is simply no logic in the position that a new use for a useless compound is more valuable to the public than a new use for an already useful compound. If anything, public policy points in the other direction. For example, if there is a need for a new agricultural herbicide, then public policy would seem to quite clearly favor the discovery of the best new herbicide. However, if inventors of new uses for nonstaples receive a greater reward than inventors of new uses for staples, and the research department of a chemical company should discover that compound X, a nonstaple, is a good herbicide, while compound Y, a staple, is even better, the company would be encouraged to seek a patent on the use of compound X, the nonstaple, in order to receive the greater reward, and keep the discovery that compound Y is even better as a company secret. This result most certainly does not comport with sound public policy. It has, in a single

stroke, deprived the public of the discovery of the better herbicide, and granted the discoverer a more substantial reward on the nonstaple compound X in return for his depriving the public of his more important discovery.

If the right to exclude others from selling chemicals for which a new use has been discovered is an important incentive for innovation, it is just as important when that chemical is a staple as when it is a nonstaple. None of the arguments which have been made by Rohm and Haas or amici reveals any reason why they should be treated differently.[16]

If the decision of the Court of Appeals is allowed to stand, Rohm and Haas will be the only one marketing propanil. That decision is a *disincentive* to its finding new uses for propanil, for it would then become a staple, and Rohm and Haas would lose its monopoly.

Section 154 of the Patent Laws grants to inventors the exclusive right to make, use and sell their *inventions*. What Rohm and Haas seeks here is something more — the exclusive right to sell the chemical used in its invention. An invention which uses a nonstaple chemical is entitled to no more reward than one which uses a staple chemical. If the Court of Appeals' decision is affirmed, however, that is exactly what will happen; Rohm and Haas will receive not only the reward to which it is entitled by virtue of its invention, but also the reward resulting from its monopoly in the market for propanil, which it did not invent.

On the other hand, a decision by this Court against Rohm and Haas will not deprive it of its just reward; Rohm and Haas will still be entitled to receive a royalty on every gallon of propanil sold, if it chooses to continue licensing

[16] This is conceded by Chemical Manufacturers Association at p. 25.

its patent. In addition, it will still be able to make a profit on the sale of propanil, a profit which will be established by competition in a free market.

The National Agricultural Chemicals Association says, at page 48 of its brief, that Rohm and Haas "has decided to forego any consideration, monetary or otherwise, it might derive by this (licensing) use of its property." But the patent laws do not give Rohm and Haas the option of exchanging the monopoly granted it for another monopoly.

As pointed out in the brief filed by Chemical Manufacturers Association, p. 24, a patented invention has a certain value, measured by what people are willing to pay for the privilege of using it. That is the reward to which Rohm and Haas is entitled by virtue of its invention. Such a reward is obtainable by licensing others to use its inventon, or practicing the invention itself. There are no other legitimate ways to profit from the patent monopoly. In addition, due to the general law, and not the patent law, Rohm and Haas can profit from marketing propanil in competition with other producers of the chemical, thereby obtaining profit other than that paid for the use of its invention. Rohm and Haas is not satisfied with this, however, but also wants the additional profit it would receive from a monopoly in the propanil market. As the Chemical Manufacturers Association points out, this would allow Rohm and Haas to increase its profit on the use of the invention if the cost of producing propanil were lowered.

More importantly, this would also allow Rohm and Haas to fix the price of propanil above that which prevails in a competitive market. This Court, in the *Motion Picture* case, found this the "clearest possible condemnation" of allowing the patentee to monopolize unpatented materials. 243 U.S. at 517.

The contention on p. 14 of Rohm and Haas' brief, that Crystal merely wants to do that which it contends Rohm and Haas should not, fails to take note of the economic difference between the two situations. When Rohm and Haas alone sells propanil, it is profiting from an illegal monopoly in propanil, but if others are licensed, profits on propanil will be derived from the manufacturing and sales efforts of each manufacturer, including Rohm and Haas, and Rohm and Haas will then receive royalties on its invention, the use. This kind of arrangement fosters competition; Rohm and Haas' system prevents it.

It is not uncommon for an inventor to make an invention on which he cannot profit except for the royalty which he receives from licensing. This is often true of individual inventors who have neither the funds nor ability to commercialize their inventions. But such inventors are usually content, even ecstatic, to receive such reward as they can from licensing. This reward has been sufficient incentive to keep these individuals hard at work in their garages and back yard shops. These is no reason why these large chemical companies should have any greater reward.

Rohm and Haas argues (RB 62) that offering farmers an alternative license would result in complex and expensive proceedings to determine reasonable royalty rates. But that has been no problem at all in the case of label licenses on staples, and there is no reason why there should be any more problem with nonstaples than with staples.[17]

[17] A few cases have pointed out that to avoid misuse, the royalty for an alternative license must be such as to give the licensee a real choice between buying from the patentee or from others. *See*, e.g., *Ansul Co.* v. *Uniroyal, Inc.*, 448 F.2d 872, 882, note 4 (2 Cir. 1971); *Barber Asphalt Corp.* v. *La Fera Grecco Contr. Co.*, 116 F.2d 211 (3 Cir. 1940). There is no indication in these opinions of the kinds of problems hypothesized by Rohm and Haas and amici.

Rohm and Haas argues that there would be no market for propanil but for their invention. But the law does not create a monopoly for every creation of a market; such monopolies are limited to those defined by patent claims. This argument was rejected by this Court in the *Motion Picture* case when it overruled *Henry* v. *A. B. Dick Co.*, 224 U.S. 1 (1912), in which the same reasoning was the basis for allowing the patentee to monopolize unpatented materials. Rohm and Haas does not merely seek to restore the law to that existing before Mercoid; they are trying to revive the rule of *Henry* v. *A. B. Dick Co.*[18]

Petitioners do not deny that innovation is important to the economy, that patents are an incentive to innovation, or that extending the patent monopoly would increase that incentive. But this does not justify extending that monopoly for the benefit of these large corporations who have the economic ability to supply the market at the expense of Petitioners, rice farmers and other small businesses without the express consent of Congress.

[18] The brief filed in behalf of Society of University Patent Administrators and the Council on Government Relations frankly seeks to overturn the *Motion Picture* case (pp. 6, 7), which would have just that effect.

CONCLUSION

For the reasons stated, the decision of the Court of Appeals should be reversed and this case remanded for further proceedings.

Respectfully submitted,

.....

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ADDENDUM

Mr. Rogers asked Mr. Fugate of the Justice Department as to the *Mercoid* cases: "Wasn't it misuse because he was requiring the purchase of something for the furnace?" Mr. Fugate answered: "That was misuse, the misuse was sufficient to defeat recovery for contributory infringement". 1951 Hearings at 169. Mr. Rogers asked whether he thought any one of the three items set forth in subsection (d) would fit into the *Mercoid* case and Mr. Fugate replied affirmatively. This discussion led Mr. Crumpacker, another member of the subcommittee, to say that he thought the language was clear and unequivocal and capable of only the one interpretation, and that interpretation was entirely contrary to that which Mr. Fugate placed on it. Mr. Fugate said that he believed Mr. Rich placed the same interpretation on it and he was asked whether that were true. This presented Mr. Rich with a clear opportunity to state unequivocally that this was what he was intending to do, to do away with the specific misuse found in the *Mercoid* case, the use of the patent to require the purchase from the patentee of the nonstaple component for the patented furnace. Mr. Rich did not do so. Instead:

> Mr. Rich: I will agree with that to this extent: That as I testified it is necessary to make an exception to misuse to the extent that you revive contributory infringement in paragraph (c), and this whole section (d) is entirely dependent on (c). Where (d) refers to contributory infringement, it only refers to contributory infringement as defined in (c) and nothing more.
>
> Mr. Crumpacker: In other words, all it says is that bringing an action against someone who is guilty of contributory infringement is not a misuse of the patent.
>
> Mr. Rich: That is true.

1951 Hearings at 169.

Mr. Rich then went on to explain that the reason for it is that a district judge in California actually dismissed a suit on the basis that the filing of a suit for contributory infringement was misuse.

Shortly thereafter, Mr. Rich was given another chance to clarify his position, when Mr. Crumpacker asked:

> As you interpret this paragraph (d) as it now reads, would it in any way prevent a court from holding the monopolistic practices referred to as being a misuse of a patent? That is, where a patentee had actually been engaged in trying to gain a limited monopoly of unpatented articles through the use of a patent.

1951 Hearings at 173.

Mr. Rich answered, "The answer is that (d) would not prevent their being held, the acts being held to be misuse."

1951 Hearings at 174.

Rohm and Haas says that Mr. Rich's intervening question, "If we assume that staples are excluded from paragraph (c)?" converts Mr. Rich's answer to a statement that only attempts to control staples would still be misuse (RB 41, 42). It is difficult to understand *what* Mr. Rich's question meant, since (c) *specifically* excludes staples and no one had contended otherwise, but it certainly could not have conveyed to the committee that his negative answer should be construed as affirmative. If he had wanted the committee to understand that his view was as contended by Rohm and Haas, all he had to answer was: "Yes, in the case of nonstaples". But he never said that.

In the last discussion of (c) and (d), Mr. Rogers attempts to sum up:

> Mr. Rogers: Then the effect of (d) with the (3) in there would be to say to the Supreme Court that it is the

> sense of this Congress that where you have heretofore denied relief to the plaintiff, you shall henceforth grant him relief if he has *only* performed one, two, or three of these acts in (d), and that is why the Department of Justice is objecting to it?
>
> Mr. Fugate: Yes, sir.
>
> Mr. Rogers: And it would therefore necessarily follow that by taking (c) and (d) together we are asking the Supreme Court to not follow the line of reasoning of declaring that a man shall be denied his day or damages if he has done any one of these three acts. Isn't that what it amounts to?
>
> Mr. Rich: That he shall not be denied his day or damages *merely* because he has done one, two, or three, or all of these acts if the contributory infringements referred to in (d) is of a type which falls within the specific terms of (c).
>
> Now a suggestion has come to me during this discussion *which may bring the views of Justice and of the patent bar together.* That would be to insert in the third line of paragraph (d) before the last word "by" the word "solely" so that he shall not be deemed guilty of misuse or illegal extension of patent rights *solely* by reason of his having done one or more of the following.
>
> *If he has gone beyond those and done other acts which could be misuse, then the misuse doctrine would be applicable.*
>
> Mr. Rogers: But then even with the word "solely" we would still say to the Court that if he had done one of these, he could now be permitted to recover?
>
> Mr. Rich: *If he has not misused it otherwise.* If it comes within the terms of (c). If he tries to license somebody, for instance, to manufacture a staple article of commerce, to be sold in a patented invention and collect royalties, let us say, for the manufacturing of salt tablets to be used in a patented vending machine

> or dry ice to be used in a patented shipping container, that will be misuse because it doesn't come within the terms of (c).

1951 Hearings at 174, 175 (emphasis added).

Clearly, Mr. Rich did not intend to convey to the subcommittee that the performance of one or more of the three acts would excuse conditioning a license on the purchase of a nonstaple, or that such an exception to the misuse law should be *inferred* from (d). This "conditioning" had been the heart of the misuse law from the beginning. If it had been his intent to excuse such conditioning, surely he would have mentioned this as an exception to the "other acts which could be misuse."

Rohm and Haas says (RB 42) that the Justice Department was not convinced by Mr. Rich's failure to confirm his 1949 position, pointing to the statement filed after the foregoing testimony (1951 Hearings at 206-208). But the objection stated there does not construe (d) to excuse conditioning a license; it only objects to the express approval of selling nonstaples while at the same time suing competitors who do so.

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In the Supreme Court of the United States

OCTOBER TERM, 1979

DAWSON CHEMICAL COMPANY, ET AL., PETITIONERS

v.

ROHM AND HAAS COMPANY

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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In the Supreme Court of the United States

OCTOBER TERM, 1979

No. 79-669

DAWSON CHEMICAL COMPANY, ET AL., PETITIONERS

v.

ROHM AND HAAS COMPANY

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

INTEREST OF THE UNITED STATES

The United States administers and enforces the federal patent and antitrust laws. The public policy interests underlying these laws require that patents not be employed to suppress competition in unpatented materials. To protect these policy interests, this Court developed the patent misuse doctrine. The decision below would exempt from the misuse doctrine a patent licensing policy that attempts to monopolize the sale of an unpatented product used only in a patented process. The decision of this Court in this case will have an important effect on competition in a number of industries where unpatented materials are made for use in patented machines or processes.

QUESTION PRESENTED

Whether Congress in enacting 35 U.S.C. 271 intended to eliminate the doctrine of patent misuse in the situation where the holder of a process patent uses his patent to suppress competition in an unpatented product that has no substantial use except in the patented process.

STATEMENT

Respondent, Rohm and Haas (Rohm), holds a patent on a process for selectively controlling weeds in crops such as rice by applying the chemical compound "3, 4- dichloropropionanilide" (propanil) (Pet. App. A-51). The value of the process patent—the Wilson patent—is that the method it describes eliminates the need for hand weeding (Br. in Opp. 5). Propanil itself is unpatented,[1] and has no commercial

[1] Propanil was invented by a Monsanto Company chemist, Dr. Clarence Huffman, in 1954-1955. Its herbicidal qualities were recognized in a 1957 patent application assigned to Monsanto, but later abandoned. See *Monsanto Co.* v. *Rohm & Haas Co.*, 312 F. Supp. 778, 784, 795 (E.D. Pa. 1970). By 1961, propanil was in public use without patent protection (*id.* at 795). Between 1958 and 1963, Rohm attempted to patent propanil; its claim was rejected as unpatentable because it was described in the prior art (*id.* at 783). On May 7, 1968, however, the Patent and Trademark Office issued a patent, assigned to Monsanto, on a claim to propanil (*ibid.*). Prior to issuance of the Monsanto patent petitioners Dawson and Crystal, as well as Rohm, had sold propanil, and all continued to market propanil after Monsanto obtained its patent. See *Monsanto Co.* v. *Dawson Chemical Co.*, 312 F. Supp. 452, 454 (S.D. Tex. 1970); *Monsanto Co.* v. *Rohm & Haas Co.*, *supra*, 312 F. Supp. at 795. Monsanto thereupon sued for infringement. A judgment in the Eastern District of Pennsylvania in favor of Rohm was affirmed in *Monsanto Co.* v. *Rohm & Haas Co.*, 456 F.2d 592 (3d Cir. 1972), aff'ing 312 F. Supp. 778 (E.D. Pa. 1970), and a judgment against Dawson and Crystal in the Southern District of Texas was reversed in *Monsanto Co.* v. *Dawson Chemical Co.*, 443 F.2d 1035 (5th Cir. 1971), rev'ing 312 F. Supp. 452 (S.D. Tex. 1970), cert. denied, 405 U.S. 934 (1972). Both courts of appeals ruled that the patent was invalid, thereby leaving propanil in the public domain.

use other than in the Wilson patent process (Pet. App. A-5).[2]

Prior to issuance of the Wilson patent, petitioners sold propanil in competition with Rohm (Pet. App. A-52).[3] After issuance of the Wilson patent, each of these firms asked Rohm to issue it a license under the patent (*id.* at A-53). Rohm refused; it licenses its patented process only to those who purchase propanil from it (*id.* at A-53).[4] Petitioners were left with two choices: (1) discontinue sale of the unpatented propanil, or (2) continue to sell propanil and contribute to their customers' direct infringement of the Wilson patent. Petitioners chose the latter course (*ibid.*).

[2] The parties and the courts in this case refer to a product such as propanil, with no use except in a particular process patent, as a "nonstaple" (Pet. App. A-6 n.2).

[3] Helena Chemical Company, a defendant below, also produced propanil (Pet. App. A-52). Helena's participation in the petition in this Court was dismissed pursuant to Rule 60 on December 6, 1979.

[4] Respondent sells propanil in containers bearing labels that describe the method of use covered by the Wilson patent. Purchasers of Rohm's propanil are thus impliedly licensed by operation of law to use the method disclosed in the Wilson patent (Pet. App. A-53).

Rohm sued petitioners for contributory infringement, and petitioners defended, charging, *inter alia*, that Rohm had misused its patent (Pet. App. A-50).[5] The district court ruled that whether or not petitioners had contributorily infringed the Wilson patent, Rohm was not entitled to relief because its tying of unpatented propanil to the patented process was patent misuse as defined by decisions of this Court culminating in *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944), and *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944) (Pet. App. A-49 to A-90). The district court held that 35 U.S.C. 271, which defines certain actions that do not constitute patent misuse, does not immunize a patentee who engages in licensing programs that foreclose competition in nonstaple articles (*id.* at A-79 to A-80).[6] The court reasoned that Section

[5] They also filed antitrust counterclaims alleging Rohm had violated Sections 1 and 2 of the Sherman Act, 15 U.S.C. 1 and 2 (Pet. App. A-6). Neither the district court nor the court of appeals ruled on these counterclaims, and they are not before this Court.

[6] Section 271 provides in relevant part:

* * * * *

(c) Whoever sells * * * a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal

271 was enacted to limit a "broad dictum" in the first *Mercoid* case that severely restricted any use of the doctrine of contributory infringement as a means of enforcing combination and process patents (*id.* at A-60 to A-61). Thus, while Section 271 "assures the viability of contributory infringement actions" it does not sanction Rohm's "efforts to corner the market on all sales of unpatented and unpatentable propanil" (*id.* at A-67 to A-71). The court concluded that to avoid the patent misuse defense and prevail in a suit for contributory infringement, a patent holder marketing nonstaple components of the patented combination or process must first offer licenses to others marketing those components (*id.* at A-79 to A-80, A-90 n. 20).[7]

The court of appeals reversed, holding that a process patent holder may condition the licensing of its process on the purchase from it of an unpatented nonstaple product used in practicing the process, and that such conduct does not prevent recovery from

extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

[7] The district court reserved for later proceedings the question of reasonable royalty rates and the number of license offers to other marketers of propanil necessary to dissipate the misuse (Pet. App. A-90 n.20).

competing producers of the nonstaple product for contributory infringement (Pet. App. A-42). It reached this conclusion because it read Section 271 (d)(1) and (3) as authorizing Rohm's conduct: Rohm had simply exercised its "right to sell the item as one competitor among many freely competing" while enforcing "its patent against those doing without permission * * * what the patentee itself is doing" (*ibid.*).

SUMMARY OF ARGUMENT

It is undisputed that respondent's refusal to license the use of its patent except to those who purchase propanil from it constitutes patent misuse under a long line of this Court's decisions, culminating in the *Mercoid* decisions in 1944. The only issue is thus whether that conduct is nevertheless protected by 35 U.S.C. 271(d), enacted in 1952. This Court has repeatedly stated that that section is to be strictly construed. Absent a "clear and certain signal from Congress," it is not to be read as overruling prior case law limiting a patentee's rights (*Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972)).

There is no such signal here. The plain language of Section 271(d) allows respondent to sell propanil, to license the use of the Wilson patent, and to sue those who sell propanil without a license. It does not permit respondents to condition its licenses on the use of propanil purchased from itself. Imposition of that condition, which ties the license to use the patented process to the purchase of an unpatented

product, is the precise conduct that constitutes patent misuse here; it is not sanctioned by the language of Section 271(d). Nor does the legislative history justify reading Section 271(d) as approving this conduct. The Senate and House Reports agree that Section 271 was intended to codify and clarify the judicially-developed principles of contributory infringement, of which patent misuse is a part, and the congressional debates confirm this view. Although the hearings on the bill that became Section 271 are ambiguous, that ambiguity is insufficient to justify the broad reversal of controlling precedent announced by the court of appeals.

ARGUMENT

I. THE COURT OF APPEALS' BROAD READING OF THE STATUTE CONFLICTS WITH LONGSTANDING PRECEDENT AND THIS COURT'S STRICT CONSTRUCTION OF SECTION 271

The court of appeals' opinion effectively abrogates patent misuse principles carefully developed by this Court in a long line of cases decided over the last 62 years. In so acting, the court of appeals failed to follow tenets of statutory construction this Court has applied in recent cases interpreting Section 271.

If Supreme Court precedent had been followed here, Rohm's conduct would have been judged patent misuse. The court of appeals conceded as much (Pet. App. A-28, A-30). Beginning with *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502, 510 (1917), this Court has uniformly

prohibited any attempt by a patentee to employ his patent, by conditional licensing or otherwise, to restrain competition in unpatented articles used in connection with the patented invention. *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27 (1931); *Leitch Manufacturing Co.* v. *Barber Co.*, 302 U.S. 458 (1938); *Morton Salt Co.* v. *G.S. Suppiger Co.*, 314 U.S. 488, 490 (1942); *B.B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942); *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944) (*Mercoid I*); *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944) (*Mercoid II*). Under the Court-developed patent misuse doctrine, a patentee restraining competition in the sale of unpatented parts of his invention is denied judicial aid in enforcing his patent against direct and contributory infringers until his misuse is abandoned and its effects dissipated. *Morton Salt Co.* v. *G.S. Suppiger Co.*, *supra*, 314 U.S. at 493; *Leitch Manufacturing Co.* v. *Barber Co.*, *supra*, 302 U.S. at 463; *Carbice Corp.* v. *American Patents Development Corp.*, *supra*, 283 U.S. at 31. In sum, these precedents establish that "every use of a patent as a means of obtaining a limited monopoly of unpatented material is prohibited." *Leitch Manufacturing Co.* v. *Barber Co.*, *supra*, 302 U.S. at 463. This prohibition is "inherent in the patent grant, [and] is not dependent upon the peculiar function or character of the unpatented material or on the way in which it is used." *Carbice*

Corp. v. *American Patents Development Corp.*, *supra*, 283 U.S. at 33.[8]

The Court's patent misuse decisions, confining a patentee's right to exclude to a scope commensurate with his invention, reflect a national economic policy favoring free competition. Under these decisions, the express claims of the patent define the limits of a patentee's privilege, and he may not use his patent to secure exclusive rights that exceed those limits. See *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, *supra*; *Morton Salt Co.* v. *G.S. Suppiger Co.*, *supra*.[9] Indeed, this Court's decisions dating back to 1917 have held that "a combination patent protects only against the operable assmbly of the whole and not the manufacture of its parts." *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 528 (1972); accord: *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 344-345 (1961); *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, *supra*, 243 U.S. at 510-513. The patent misuse doctrine is thus consistent with the pro-competition policies of the antitrust laws. See *International Salt Co.* v. *United States*, 332 U.S. 392,

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[8] The same principle applies whether the unpatented product is necessary to the operation of a patented combination (*Carbice Corp.*, *supra*; *Mercoid I* and *Mercoid II*, *supra*), or a material used in practicing a patented process (*Leitch Manufacturing Co.*, *supra*; *B.B. Chemical Co.*, *supra*).

[9] See also *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 456 (1940); *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 339 (1961); *McClain* v. *Ortmayer*, 141 U.S. 419, 423-424 (1891).

395-396 (1947); *United States* v. *Loew's Inc.*, 371 U.S. 38, 46 (1962).

At the same time, the misuse doctrine furthers the pro-innovation policies that are at the heart of the patent system. In a tying case such as this, for example, innovation is rewarded and thereby encouraged by granting the patentee an exclusive right to practice the process he has invented. But extending that exclusive right to the marketing of a non-innovative chemical product to be consumed in that process would be a disincentive to the possible discovery of better ways to produce that product or of a more advantageous alternative product [10]—the very types of discoveries sought to be encouraged by the patent system.[11] It would also, of course, be a disincentive to the

[10] The latter consideration is probably not involved in the present case, however, because the patented process appears to be specific to propanil.

[11] There are, however, some countervailing considerations. There might be marginally more incentive to discover other uses for a chemical such as propanil (thus converting it into a staple) if the alternative for the potential discoverer were to be foreclosed from marketing it altogether, rather than merely to have to pay a reasonable royalty to do so. (On the other hand, those already producing and marketing it for a royalty might be more likely to attempt to discover other uses for it.) And, of course, the incentive to discover a new and useful process would be increased by the prospect of a more extensive monopoly reward, with concomitantly enhanced bargaining power with respect to the terms and conditions under which licenses may be granted to market a nonstaple product for use in the process. Such considerations conceivably could persuade Congress to change the legal principle governing this case, but, for the reasons stated in this brief, we submit that it has not done so in Section 271.

possible development by others of non-patentable efficiencies in the production or distribution of that product, which the policies of the antitrust laws seek to encourage. The misuse doctrine thus serves both patent and antitrust policies and is antagonistic to neither.

To validate Rohm's conduct the court of appeals read 35 U.S.C. 271 broadly, as substantially limiting the foregoing case law and the longstanding policies those cases reflect (Pet. App. A-30, A-47 to A-48). But this Court has stressed that Section 271 must be strictly construed "in light of this Nation's historical antipathy to monopoly." *Deepsouth Packing Co.* v. *Laitram Corp.*, *supra*, 406 U.S. at 530; see also *Graham* v. *John Deere Co.*, 383 U.S. 1, 7 (1966). Thus, in interpreting Section 271, patent rights should not be expanded by overruling or modifying prior cases "unless the argument for expansion of privilege is based on more than mere inference from ambiguous statutory language." *Deepsouth Packing Co.* v. *Laitram Corp.*, *supra*, 406 U.S. at 531. What is required is "a clear and certain signal from Congress" (*ibid.*). Absent such a signal, the limitations on the exercise of Rohm's patent must be strictly enforced. *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 230 (1964). See also *United States* v. *Masonite Corp.*, 316 U.S. 265, 280 (1942); *United States* v. *Univis Lens Co.*, 316 U.S. 241, 251 (1942).

The court of appeals was accordingly obligated to find in the language or legislative history of Section 271 a specific determination by the Congress sup-

porting the expansive reading of a patentee's rights and the significant narrowing of the patent misuse doctrine involved here. But no such congressional intent can be found. Congress has not clearly "indicated that it wanted the patent privilege to run farther than it was understood to run for * * * [62] years prior to the action of the Court of Appeals for the Fifth Circuit." *Deepsouth Packing Co.* v. *Laitram Corp.*, *supra*, 406 U.S. at 530. On the contrary, the interpretive evidence that is available weighs in favor of petitioners.

II. THE PLAIN LANGUAGE OF SECTION 271 DOES NOT SUPPORT THE COURT OF APPEALS' INTERPRETATION

The plain language of Section 271 does not immunize respondent's conduct from patent misuse. Subsections (a), (b), (c) and (d) of Section 271 each involve distinct subject matter. Subsection (a) defines patent infringement. Subsections (b) and (c) deal exclusively with the conduct of indirect infringers: subsection (b) creates potential liability for those who actively induce infringement while subsection (c) creates potential contributory infringement liability for those who sell products for infringing use, knowing those products to be nonstaple articles of commerce.

Section 271(d) relates to conduct by the patentee; it specifies three acts that the patentee may do without being deemed to have misused his patent. Subsection (d)(1) permits the patentee to "deriv[e]

revenue from acts which if performed by another without his consent would constitute contributory infringement," thus permitting Rohm to sell unpatented propanil for use in its patented process. Subsection (d)(2) permits the patentee to "licens[e] or authoriz[e] another to perform acts which if performed without his consent would constitute contributory infringement of the patent," thus permitting Rohm to license others to sell propanil for use in its patented process and collect royalties from those sales. Subsection (d)(3) permits the patentee to bring suit to "enforce his patent rights against infringement or contributory infringement," thus permitting Rohm to sue unauthorized sellers.

Section 271(d) is silent, however, on the issue of whether Rohm may, without misusing its patent, license the use of its process on condition that the licensees buy unpatented propanil from Rohm. This issue is critical, for the essence of patent misuse is the exclusion of competition by licensing only those who agree to buy the unpatented article from the patentee. Section 271(d), which permits Rohm to sell propanil, to license others to sell propanil for use in the patented process, and to file contributory infringement actions against unlicensed sellers, simply does not address the precise conduct that constitutes the misuse.

Indeed, the court of appeals identified no language in the statute specifically authorizing Rohm's conduct. Rather, it was the court's "impression" that, when

subsections (d)(1)-(3) are read together, they permit a patentee to limit licensing to those purchasing an unpatented, nonstaple component from him (Pet. App. A-42). A primary basis for this impression was the court's conclusion that the only way to give meaning to the authorization to license in (d)(2) is to interpret (d)(1) as granting the patentee the exclusive right to sell the nonstaple.[12] The court explained (Pet. App. A-42):

> [T]he rights to license another to sell such unpatented items [under (d)(2)] would be rendered worthless if the only right conferred by (d)(1) were the right to sell the item as one

[12] The court evidently was also influenced by the belief that "[a] general licensing obligation is foreign to a statutory scheme in which patentees are free to suppress entirely or reserve for themselves their inventions" (Pet. App. A-44 n.27). But the statutory scheme does not permit a patentee who elects to license his patent the option of including any conditions he chooses in those licenses. See, *e.g.*, *Mercoid I*, *supra*, 320 U.S. at 666; *Ansul Co.* v. *Uniroyal, Inc.*, 306 F. Supp. 541 (S.D. N.Y. 1969), aff'd in relevant part, 448 F.2d 872 (2d Cir. 1971), cert. denied, 404 U.S. 1018 (1972); *National Foam System, Inc.* v. *Urquhart*, 202 F.2d 659 (3d Cir. 1953). Specifically, he may not condition the grant of a license to use the patent on the purchase from him of unpatented articles associated with the patented process. *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, *supra*, 243 U.S. at 515; *McCullough Tool Co.* v. *Well Surveys, Inc.*, 343 F.2d 381, 407 (10th Cir. 1965); *Preformed Line Products Co.* v. *Fanner Manufacturing Co.*, 328 F.2d 265, 276 (6th Cir. 1964). Having chosen to license the Wilson patent, Rohm was thus obligated to do so in a manner consistent with both the terms of his patent and the preservation of competition in the unpatented product, propanil.

> competitor among many freely competing. Who would take a license, and on what terms, if anyone were free to compete, and the patentee had no legitimate right to exclude others from the market?

The right to license other sellers of the unpatented nonstaple is not, however, rendered worthless by an interpretation of Section 271 favoring petitioners. Section 271(c) recognizes the sale of unpatented nonstaples as contributory infringement, and Section 271(d)(3) authorizes suits for contributory infringement. Thus, a firm that wishes to compete in the sale of an unpatented nonstaple without contributorily infringing the patent must obtain a license from the patentee. Such a license has market value, and the patentee can obtain a reasonable royalty for its use.[13] Moreover, in accordance with subsection (d)(1) the patentee is still free to obtain revenue from his sales of the unpatented component. He is limited only by the condition that he cannot arrogate to himself all these sales by tying his grant of a license to the purchase from him of the unpatented component.

[13] This analysis comports with what actually happens in the marketplace, where non-exclusive royalty-bearing licenses are a frequent occurrence. See, *e.g.*, *Mercoid II*, *supra*, 320 U.S. at 682; *National Foam System, Inc.* v. *Urquhart*, 202 F.2d 659, 662-663 (3d Cir. 1953); *Philad Co.* v. *Lechler Laboratories, Inc.*, 107 F.2d 747, 748 (2d Cir. 1939). Cf. *United States Gypsum Co.* v. *National Gypsum Co.*, 387 F.2d 799, 802 (7th Cir. 1967), cert. denied, 390 U.S. 988 (1968). Indeed, the petitioners sought licenses to sell propanil (Pet. App. A-53).

III. THE LEGISLATIVE HISTORY DOES NOT SUPPORT THE COURT OF APPEALS' EXPANSIVE INTERPRETATION OF SECTION 271

The court of appeals interprets Section 271 as a grant to the patent holder of exclusive rights in any unpatented nonstaple component of the patented invention. Had Congress intended so dramatic a departure from well-established precedent, it would presumably have acknowledged this change during its deliberations. No such acknowledgement appears in the legislative history.[14] Instead, the legislative history emphasizes the limited reach of Section 271.

There is strong evidence that Section 271 was enacted on the understanding that it did not substantively modify prior patent law, but merely codified it or at most clarified it. Both the Senate and the House reports on Section 271, after noting that there was "[c]onsiderable doubt and confusion as to the scope of contributory infringement," stated that the purpose of Section 271 was "to codify in statutory

[14] Hearings were held by successive Congresses to consider codifying the patent laws, with particular attention paid to contributory infringement law. *Patent Law Codification and Revision: Hearings on H.R. 3760 Before Subcomm. No. 3 of the House Comm. on the Judiciary*, 82d Cong., 1st Sess. (1951) [hereinafter *1951 Hearings*]; *Contributory Infringement: Hearings on H.R. 3866 Before Subcomm. No. 4 of the House Comm. on the Judiciary*, 81st Cong., 1st Sess. (1949) [hereinafter *1949 Hearings*]; *Contributory Infringement in Patents—Definition of Invention: Hearings on H.R. 5988, H.R. 4061 and H.R. 5248 Before Subcomm. on Patents, Trademarks, and Copyrights of the House Comm. on the Judiciary*, 80th Cong., 2d Sess. (1948) [hereinafter *1948 Hearings*].

form principles of contributory infringement and at the same time eliminate this doubt and confusion." H.R. Rep. No. 1923, 82d Cong., 2d Sess. 9 (1952); S. Rep. No. 1979, 82d Cong., 2d Sess. 8 (1952). The reports also explained that under Section 271(d) a "patentee is not deemed to have misused his patent *solely* by reason of doing anything authorized by the section" (emphasis added). H.R. Rep. No. 1923, *supra*, at 28; S. Rep. No. 1979, *supra*, at 28. The plain implication was that if a patentee went beyond what was expressly described in subsection (d), as Rohm has here, Section 271 gave him no protection against a misuse defense.

The same view of Section 271's scope was authoritatively expressed on the Senate floor and during the hearings in the House. Just prior to the Senate vote on the codification bill, Senator McCarran, chairman of the committee responsible for the bill in the Senate, explained the bill's purpose on the Senate floor. He was asked by Senator Saltonstall, "Does the bill change the law in any way or only codify the present patent laws?" Senator McCarran responded: "It codifies the present patent laws." 98 Cong. Rec. 9323 (1952).[15] Similarly, Representative Crumpacker, a member of the House subcommittee conducting hearings on the bill, responded to concerns that the bill

[15] This Court relied on this statement to support a narrow interpretation of Section 271 in *Deepsouth Packing Co.* v. *Laitram Corp.*, *supra*, 406 U.S. at 530. See also *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, *supra*, 365 U.S. at 347 (Black, J., concurring).

could be interpreted to authorize conduct previously deemed patent misuse by stating that he interpreted the statute as not authorizing conduct previously deemed by the courts to be misuse or "monopolistic practices." [16]

This Court's decisions interpreting Section 271 have repeatedly relied on these aspects of Section 271's legislative history. *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 347 (1961) (Black, J., concurring); *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 485 n.6 (1946); *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 530 (1972); cf. *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation*, 402 U.S. 313, 343-344 (1971); *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 133-141 (1969).[17]

The court of appeals considered this legislative history less significant than the testimony of proponents and opponents of the bill during the committee hearings (Pet. App. A-33 to A-40). The court relied heavily on the testimony by one of the bill's authors, Giles Rich, then a member of the private bar (Pet. App. A-33).[18] It summarized Rich's testimony before the House subcommittee in 1951 as being to the effect that the section was "designed to avoid restricting competition in items that were staples, while at the same time allowing patentees to deal in certain materially important unpatented elements and to sue competitors therein without being thrown out of court on grounds of misuse" (Pet. App. A-34; see *1951 Hearings* 157-159). The court also noted that Rich had told the House subcommittee that the bill was a compromise, not representative of any stage in the development of the contributory infringement and misuse doctrines (Pet. App. A-34 to A-35; see *1951 Hearings* 159-162). Finally, the court cited the testimony of Justice Department opponents of the bill who, the court said, saw Section 271 as a major and controversial change in misuse principles (Pet. App. A-36).

This reliance on excerpts from committee testimony, rather than the contrary interpretation in the committee reports and congressional debates, contravenes accepted principles of statutory construction. See *McCaughn* v. *Hershey Chocolate Co.*, 283 U.S.

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[16] *1951 Hearings* 164-165, 167. The court of appeals cited Representative Crumpacker's statement and the exchange between Senators Saltonstall and McCarran as indicating that "the legislative history is not crystal clear" (Pet. App. A-39).

[17] The court of appeals recognized that these decisions suggest an interpretation of the legislative history that would require affirmance of the district court here, but then chose to read that history differently. Thus, after reviewing the two *Aro* decisions, the court acknowledged that these "extraordinarily complex opinions, on balance, probably cut against our view" (Pet. App. A-46) and "that perhaps the majority [in *Aro*] would have considered any conditioning or tying as misuse, still prohibited irrespective of section 271(d)" (*id.* at A-47 n.29). See also Pet. App. A-47 to A-48 n.30.

[18] He subsequently became a judge on the Court of Customs and Patent Appeals. In that capacity, he authored an opinion recognizing the narrow scope of Section 271(d) in another context—its inapplicability to product claims. *Application of Ruschig*, 343 F.2d 965, 979 (C.C.P.A. 1965).

488, 493-494 (1931). But even if the hearings are to be relied on, there is much in them that supports petitioners' interpretation of the statute.

The proposed Section 271 was presented by members of the private patent bar as a means for dealing with the uncertainty created by the Court's decisions in *Mercoid I*, *supra*, and *Mercoid II*, *supra*.[19] In *Mercoid I* the combination patent was for a home heating system that included an unpatented stoker switch useful only in that system (320 U.S. at 663-664). The patent holder, Mid-Continent, granted an exclusive license under its patent to Honeywell (*id.* at 663). Honeywell manufactured and sold only the unpatented stoker switch, giving the purchaser an implied license to incorporate it into the patented system, and paying royalties to Mid-Continent based upon the number of switches sold (*ibid.*). Mercoid also sold the stoker switch (*id.* at 664). It had been offered a license by Mid-Continent prior to the issu-

---

[19] Giles Rich acknowledged this in his testimony (*1951 Hearings* 173):

> MR. ROGERS. * * * Now, due to what many members of the patent bar believe, that [Mercoid] did away with contributory infringement cases, you feel that we should now state as a positive law a cause of action against contributory infringement as set forth in section (c), and that if he has done one of the three things in section [(d)], that shall not be considered a misuse of his patent, and thereby reestablish what you thought you had before the Mercoid case. Isn't that about what the situation is?
>
> MR. RICH. That is what we are driving at.

ance of the Honeywell license, and after that also had been offered a sublicense by Honeywell. Mercoid refused these offers and was sued for contributory infringement. *Mid-Continent Inv. Co.* v. *Mercoid Corp.*, 43 F.Supp. 692, 695 (N.D. Ill.), aff'd in part and rev'd in part, 133 F.2d 803, 811 (7th Cir. 1942).

In *Mercoid II*, Honeywell held a combination patent on a hot air furnace control system that required three unpatented thermostat switches useful only in that system. 320 U.S. at 682. Honeywell manufactured and sold two of the switches as a single unit, giving a license to the purchaser to install the unit in the patented system. It also licensed five of its competitors to sell the two-switch unit. Mercoid manufactured and sold the same unit. Honeywell offered Mercoid a license similar to those held by its existing licensees, but Mercoid refused the offer. Honeywell then sued for contributory infringement. 320 U.S. at 683.

In both *Mercoid I* and *Mercoid II* the Court held that the patentee could not successfully sue for contributory infringement. In *Mercoid I*, the Court found that Mid-Continent was guilty of patent misuse. It acknowledged, however, that the "result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement" (320 U.S. at 669). And, in *Mercoid II* the Court concluded that Honeywell had violated the antitrust laws (320 U.S. at 684).

The proponents of Section 271 complained to Congress that after the *Mercoid* cases even a patentee's

offer to license a competitor producing an unpatented nonstaple component of his invention could be considered patent misuse. If the patentee made even such a limited offer, according to Giles Rich, the "courts would hold that the granting of the license and the collecting of royalties on something less than what was covered by the patent was misuse" (*1949 Hearings* 16; see also *1949 Hearings* 10). The proponents' emphasis was on protecting the *Mercoid*-type patentee who was willing to license competitive production of the unpatented component.[20] It was not

[20] This emphasis is also reflected in the testimony of Stephen Cerstvik on behalf of the Aircraft Industries Association (*1949 Hearings* 26):

> [Manufacturers of unpatented components] could avoid liability as contributory infringers, prior to the Mercoid cases, by obtaining a license from the patent owner and paying him royalties on the sale of the unpatented components for use in the patented combination. At present, and as a result of the decisions of the Mercoid cases, this cannot be done without the danger of the patent owner subjecting himself to the possible charge that he is misusing his patent to control the sale of unpatented products by the collection of royalties on the sale of such unpatented products.

And see the testimony of Giles Rich during the same hearings (*id.* at 16):

> The courts would say * * * if they logically follow the Mercoid case, that the granting of this license [to a competing producer of nonstaple components] is a misuse because you are attempting to collect royalties from somebody under your patent for doing something which, per se, is not an infringement of your patent. It is not covered by your claims * * *.

Similarly, a Justice Department spokesman, Wilbur Fugate of the Antitrust Division, in expressing his opposition to Section 271(d), noted that subsection (d)(2), permitting a patentee to license others, "was designed to overrule the Mer-

suggested that Section 271 was designed to insulate from a misuse defense the entirely different case of the patentee who refuses to give a license to competing producers of nonstaple components, while offering a license to users of his patented process willing to purchase its unpatented components from him.[21] Thus a congressional desire in enacting Section 271 to modify or overrule the results of the *Mercoid* decisions is not sufficient to support the court of appeals' decision here. Rather, the court's reading of the statute imputes to Congress an intent to overrule not only the *Mercoid* decisions, but much earlier law as well.[22]

coid cases" (*1951 Hearings* 207). Although Mr. Fugate also objected that Section 271(d)'s effect "is to permit a patentee to sell unpatented parts for a patented device or combination and at the same time prohibit his competitors, by suit for contributory infringement, from selling such unpatented materials in competition with him," it is unlikely in light of the reference to the Mercoid cases, that Fugate intended to suggest that Section 271(d) would permit suit by a patentee who had *refused to license* his competitors.

[21] The comments of Justice Department spokesmen are not inconsistent with this analysis. Department representatives were primarily concerned that the statutory language might be given an overly broad judicial interpretation. Mr. Fugate summarized the Department's views (*1951 Hearings* 207):

> [T]he Department of Justice objects to section [271] since its *effect might be* to carve out an area in which the antitrust laws would not operate. Acts which are a misuse of patents, particularly the expansion of the patent to cover unpatented articles *might* no longer be a misuse. [Emphasis added.]

See also the remarks of Representative Crumpacker, *supra*, pages 17-18.

[22] The effect of the court of appeals' decision is to reinstate, at least for nonstaple articles, this Court's decision in *Henry* v. *A. B. Dick Co.*, 224 U.S. 1 (1912), a decision that was

And there is no evidence of such a congressional intent.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be reversed.

Respectfully submitted.

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expressly overruled in *Motion Pictures Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502, 518 (1917).

The prohibition against using the patent grant to dominate commerce in nonstaples arises out of pre-*Mercoid* decisions, law that Section 271's draftsmen desired to retain (see note 19, *supra*). In *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942), this Court affirmed a decision finding misuse where nonstaple components were involved. Although the distinction between staples and nonstaples was expressly considered by the court of appeals (117 F.2d 829, 834-835 (1st Cir. 1941)), it was not addressed specifically by this Court, which simply held that the patentee's "use of the patent as the means of establishing a limited monopoly in its unpatented materials * * * is contrary to public policy * * *." 314 U.S. at 497-498. Prior to *B. B. Chemical*, another court of appeals had also refused to distinguish between staple and nonstaple articles in applying the misuse doctrine. *Philad Co.* v. *Lechler Laboratories, Inc.*, 107 F.2d 747 (2d Cir. 1939).

☆ U. S. GOVERNMENT PRINTING OFFICE: 1980 315021 245

MOTION FILED
MAR 20 1980

IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

No. 79-669

DAWSON CHEMICAL COMPANY, ET AL., *Petitioners*

v.

ROHM AND HAAS COMPANY, *Respondent*

On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

MOTION FOR LEAVE TO FILE BRIEF AND BRIEF OF THE NATIONAL ASSOCIATION OF MANUFACTURERS, AS AMICUS CURIAE, IN SUPPORT OF RESPONDENT

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---

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE IN SUPPORT OF RESPONDENT

The National Association of Manufacturers (NAM) respectfully moves for leave to file the accompanying brief Amicus Curiae in this case. The consent of the attorney for the Respondent has been obtained. The consent of the attorney for the Petitioners has been denied.

The NAM is one of the nation's largest non-profit voluntary business associations. Its membership comprises over 12,300 manufacturing and related firms of all sizes from every state in the nation. While many of

the nation's largest companies are members of the NAM, almost 80 percent of the member companies are small businesses, employing fewer than 500 people. In addition, more than one hundred manufacturing trade associations, representing approximately 30,000 firms, are members of the NAM's Associations Department. An additional 128,000 firms are affiliated with the NAM through the National Industrial Council.

This case presents an opportunity for the Court to clarify issues relating to contributory infringement, patent misuse, and the proper scope of the patent grant. This case asks the Court to affirm that, in enacting Section 271 of the Patent Code,[1] Congress intended to enable enforcement of the patent grant against "free-riders" who sell unpatented components of the invention which have no substantial use other than in infringing the patent and which are intended for use in the invention. To reach this result, the Court must determine that Congress did not intend to require compulsory licensing of patent rights under Section 271(d).

The NAM members regularly use and rely on patents. Because patents are essential to manufacturing in a free market economy, the NAM has long had an official written policy on patents, as follows:

> The patent laws of the United States have contributed greatly to the high standards of living of our people and to our world leadership in modern technology. The incentives of our American system of patents are vital to our continuing industrial growth as well as to the establishment and success of new ventures. The property represented by a valid patent should stand before the law on a par with other property and should be accorded the same legal protection. In keeping with these principles, and in order to encourage prompt use of worthwhile inventions, the rights of patent owners to license their patents in whole or in part, for specified territories, times, amounts or uses, must be preserved in the public interest, but we are opposed to compulsory licensing as destructive of the "exclusive right" which is the entire property secured by a patent under the Constitution.[2]

As a leading association of this nation's manufacturing companies, the NAM unequivocally supports the Constitutional purpose of our patent laws to "Promote Science and the Useful Arts." Similarly, the NAM opposes any interpretation of Section 271 which would require compulsory licensing of patent rights merely because a patentee performs one or more acts permitted by Section 271(d).

The large majority of the NAM members are small businesses with commensurably small research and development programs. As a representative of these companies, the NAM believes it is singularly well qualified to demonstrate the adverse impact which would follow from a reversal of the Court of Appeals' decision below. Furthermore, since the NAM members own and use a broad spectrum of patents, the NAM is particularly well suited to show the impact of this case on technological development outside the area of un-

[1] In 1952, Congress revised and codified the patent laws in Title 35 of the U.S. Code (hereinafter the "Patent Code"). Section 271 of the Patent Code attempts to reconcile the doctrines of contributory infringement and patent misuse. This section defines the proper scope of the patent grant and the manner in which a patent holder may enforce his rights under that grant.

[2] Statement of The National Association of Manufacturers on S. 414, "The University and Small Business Patent Procedures Act," June 13, 1979. NAM has had this written policy since at least February 12, 1960.

patented chemical compounds and outside the chemical manufacturing industry.

Because of the strong interests and expertise of the NAM members in the subject matter of this case, NAM believes that if this Court grants leave to file, its brief as Amicus Curiae will provide the Court a broadened perspective on the issues to be determined in this case. The NAM believes that because the Petitioners and Respondent are chemical manufacturing companies, their briefs may not adequately represent the interests or perspective of small business technology firms generally nor of areas of technological innovation outside the chemical industry. These broader interests should weigh on the Court's construction of Section 271, which will have a significant impact on technological development throughout our economy.

Accordingly, the NAM urges that leave be granted to file the accompanying brief as Amicus Curiae and respectfully so moves this Court.

Respectfully submitted,

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On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

---

BRIEF OF THE NATIONAL ASSOCIATION OF MANUFACTURERS OF THE UNITED STATES OF AMERICA, AS AMICUS CURIAE IN SUPPORT OF RESPONDENT

INTERESTS OF AMICUS CURIAE

The interests of the National Association of Manufacturers (NAM) are set forth in the accompanying Motion for Leave to File Brief Amicus Curiae In Support of Respondent.

STATEMENT

The General Issues

This case presents the Court with an opportunity to reconcile two very important but conflicting public interests. The first is the public's interest in receiving the benefits that flow from providing incentives for innovation. The second is the public's interest in receiving the benefits that flow from free and open competition. In 1952, when Congress revised and codified the patent laws in Title 35 U.S.C., it enacted Section 271 of that Title to reconcile these public interests.[1]

The Court had attempted to reconcile these public interests in a series of cases going back at least eighty years prior to the enactment of Section 271. Through these cases, the Court developed the contributory infringement doctrine because it recognized that certain types of discoveries are not susceptible to protection by infringement actions against direct infringers. The contributory infringement doctrine extends patent protection to essential components of a discovery that have no substantial use other than in infringing the patent ("non-staples").

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[1] Section 271 describes the means by which a patentee may enforce its patent. Section 271(a) defines a direct infringer as one who makes, uses, or sells the patented invention. Section 271(c) defines a contributory infringer as one who knowingly sells an essential component of, or material for use in, the invention, which component or material has no substantial use other than in infringing the patent. Section 271(d) permits the patent holder to: (1) sell a component which, if sold by another, would be a contributory infringement of the patent; (2) license another to to so; and (3) sue another for contributory infringement. This section provides that if any one or more of those acts are performed, the patent holder will not be guilty of misusing his patent grant.

Over the years, the Court expanded the contributory infringement doctrine to include non-essential component parts of a discovery which did have substantial non-infringing uses ("staples"). As a check on this expansion of patent rights, the Court developed the countervailing doctrine of patent misuse, which was applied in a series of cases that sharply curtailed the contributory infringement doctrine. In *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944) (hereinafter "Mercoid"), the pendulum swung wildly in favor of competitive values, as the Court withdrew patent protection from even essential non-staple component parts of a discovery.[2] Section 271 represents the effort of Congress to accommodate more reasonably the conflict between patent protection and competition with respect to non-staple components of a discovery. This case requires the Court to decide whether Congress accomplished this result and overturned the Court's holding in *Mercoid*.

The Facts

On June 11, 1974, United States Patent 3,816,092 issued to Harold F. Wilson and Dougal H. McRae (hereinafter the "Wilson patent") (A. 35).[3] These scientists discovered the sole commercial use for the unpatented chemical "propanil." They discovered that

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[2] For purposes of this brief, the term "staple" shall mean an article which is suitable for a substantial use other than infringing the patent. The term "non-staple" comes from the language of 35 U.S.C. Section 271(c) and means an article which is: (1) a material part of the invention; (2) especially made or adapted for use in an infringement of the patent; and (3) not a staple.

[3] "A," followed by a page number, is a reference to Petitioners' Appendix to the Petition For Certiorari Filed October 24, 1979. Certiorari was granted January 7, 1980.

propanil can be used selectively to inhibit the growth of undesirable plants, such as weeds, in an area growing desirable plants, such as rice, in an established crop (A. 36).[4] Rohm and Haas Company (hereinafter "Rohm and Haas") is and has been the sole owner of the Wilson patent since its issuance (A. 35-36). Propanil is at the heart of the Wilson patent and has no commercial use other than in the patented process. Rohn and Haas, a large, diversified chemical manufacturer, has never been engaged in cropdusting or farming—it simply manufactures chemicals, including propanil.

Rohm and Haas sells propanil with written instructions for its use in the patented method, thereby conveying to the purchaser, by operation of law, an implied license under the Wilson patent (A. 38). Petitioners also sell propanil with similar written instructions (A. 37). Rohm and Haas has declined to grant any licenses other than implied licenses under the Wilson patent, and brought this suit against Petitioners for contributory infringement under 35 U.S.C. Section 271(c) (A. 38).

Petitioners raised the defense, among others, that Rohm and Haas has misused its patent (A. 11). They argue that by selling propanil (permitted by 35 U.S.C. Sections 271(d)(1)) and declining to grant any licenses other than implied licenses, Rohm and Haas was unlawfully conditioning licenses under its patent to the purchase of propanil from Rohm and Haas (A. 11). In short, Petitioners charged that Rohm and Haas "tied" the sale of propanil to the patent "license," and thereby committed a misuse of the patent, which defeats its suit for contributory infringement.

[4] The Wilson Patent claims the discovery in the form of a method. The broadest of the claims reads as follows:

> 1. A method for selectively inhibiting growth of undesirable plants in an area containing growing undesirable plants in an established crop, which comprises applying to said area 3,4-dichloropropionanilide [propanil] at a rate of application which inhibits growth of said undesirable plants and which does not adversely affect the growth of said established crop." (A.36.)

On cross-motions for summary judgment (A. 40, 43), the District Court held that the Rohm and Haas licensing practices constituted a misuse of its patent and that Congress, in enacting Section 271, did not intend to overrule *Mercoid* but, rather, merely intended to clarify and codify the law. (A. 79-80; A. 60-61.) The District Court reasoned that if a patent holder markets a non-staple component of its patented invention, an act allowed under Section 271(d)(1), it is guilty of a patent misuse (an illegal "tie-in") unless it also offers licenses to others marketing those non-staple components (A. 79-80; A. 90, n.20). As a result, the District Court dismissed the infringement action brought by Rohm and Haas.

The Court of Appeals reversed, holding that Rohm and Haas had not misused its patent because Congress, in enacting Section 271, had intended to overrule *Mercoid* and restore the pre-Mercoid non-staple contributory infringement doctrine (A. 142). In reaching this conclusion, the Court of Appeals relied, in part, on the comments of Mr. Giles Rich and Mr. P. J. Frederico, the primary draftsmen of Section 271 (A. 169):

> Rather, the line drawn by paragraphs (c) and (d) [in Section 271] represents a careful compromise between the public policy of encouraging competition, vindicated by exempting sales of staples from the definition of contributory infringement, and a

patentee's desire to market his device in the most practical manner possible and to protect it against piracy.

SUMMARY OF ARGUMENT

The issue in this case is the appropriate construction of Section 271 of the Patent Code. For several reasons, we believe that the Court of Appeals below correctly construed this statute.

First, the language of 35 U.S.C. Sections 271(c) and (d) demonstrate a Congressional intent to approve conduct such as that of Rohm and Haas in this case. Rohm and Haas sold propanil and sued Petitioners. Both acts are expressly exempted from the misuse doctrine by Sections 271(d)(1) and (3). If Congress had intended to require that Rohm and Haas license the Wilson Patent to Petitioners, it would have written this requirement into the statute. A compulsory licensing requirement should not be read into Section 271 without a clear and certain signal from Congress that it intended such a result.

Second, the Court of Appeal's interpretation of the plain language of the statute receives additional support from an analysis of this Court's opinions prior to *Mercoid,* as well as from the legislative history of Section 271. The Court of Appeals correctly found that, prior to *Mercoid,* the doctrine of contributory infringement expanded the scope of the patent grant to include unpatented essential non-staple components of a patented invention. *Mercoid* eliminated this non-staple form of the contributory infringement doctrine. The Court of Appeals also correctly found that the legislative history of Section 271 demonstrates a Congressional intent to restore the non-staple form of the

contributory infringement doctrine. In considering the legislative history, the Court of Appeals properly placed more weight on the contemporaneous discussions of the draftsmen of Section 271 than on the casual, and often incorrect, statements of legislators.

Third, the Court of Appeals' interpretation of Section 271 accords with sound public policy considerations. Compulsory patent licensing in the pervasive form requested by Petitioners is against public policy. It is contrary to the very purpose and existence of the patent laws. Additionally, failure to affirm the Court of Appeals' interpretation of Section 271 would adversely affect the ability of many small business technology firms to enforce patents which deal with a large portion of the nation's commerce. Small firms produce a majority of the technological innovations made in this country today. To discourage these companies from innovation at a time when this country's technological output has fallen below that of other major competitors in the world market would have a serious adverse impact on the economic life of this country.

ARGUMENT

I. The Language Of 35 U.S.C. Sections 271(c) And (d) Demonstrates That Congress Intended To Approve Conduct Such As That Of Rohm And Haas In This Case.

"The starting point in every case involving the construction of a statute is the language itself." *International Brotherhood of the Teamsters* v. *Daniel,* 439 U.S. 551, 558 (1979) (citation omitted). Courts should "read the statutory language in its ordinary and natural sense." *United States* v. *Coopercourt,* 321 U.S. 600, 605 (1941). So read, the language of Section 271

establishes a Congressional intent to approve conduct such as that of Rohm and Haas in this case.

For the purpose of this appeal, Petitioners agree that propanil is a non-staple. Thus, their sale of propanil, in the absence of alleged misuse by Rohm and Haas, is a contributory infringement of the Rohm and Haas patent under Section 271(c).[5] Section 271(d) provides as follows:

> No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

Rohm and Haas has complied with Section 271(d)(1) by selling propanil, which enables the purchaser, by operation of law, to use the Wilson Patent. That conduct alone is exempt from patent misuse. Petitioners claim, however, that since Rohm and Haas has

[5] 35 U.S.C. Section 271(c) reads as follows:

> (c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

declined to grant licenses, the net effect of Rohm and Haas' policy is that those who wish to use the patented invention can do so only if they purchase the non-staple component, propanil, from Rohm and Haas. Petitioners argue that under Section 271(d)(1), a patent holder who sells a non-staple component of his invention will be guilty of patent misuse if he declines to license his patent to other manufacturers of the non-staple component. Petitioners' interpretation of Section 271(d)(1) reads a compulsory licensing requirement into that section.

However, if Congress intended this interpretation of Section 271(d)(1), it would have written a compulsory patent licensing provision into the statute. Congress has done so explicitly in statutes relating to copyrights, air pollution, plant variety protection (Pet. Br. 29),[6] as well as atomic energy (42 U.S.C. § 2182-2190). Given these examples, the fact that Congress did not put an explicit compulsory patent licensing provision in Section 271(d)(1) demonstrates its intention not to do so. Thus, the Court of Appeals was correct in rejecting Petitioner's interpretation of Section 271. Without a compulsory licensing requirement, the language of Section 271 approves Rohm and Haas' conduct with regard to the Wilson Patent.

Furthermore, a comparison of Section 271(d)(1) with Section 271(d)(2) shows the fallacy of Petitioners' argument that Section 271(d) merely permits a

[6] Pet. Br. followed by a page number is a reference to Petitioner's Brief on the Merits.

patentee to sell non-staple components competitively with other suppliers. As one commentator stated:[7]

> This analysis, however, does not make sense when applied to subsection (2). The statute permits the patentee to "license" or "authorize" others to do the same acts which he himself is permitted to do by subsection (1). If the only act permitted by subsection (1) is the sale of components in competition with unlicensed suppliers, the "license" language is meaningless. Of what possible use is a "license" to compete when anyone can compete without a license? In order to give significance to the word "license," it must be assumed that the right of the patentee being licensed is somehow exclusive—that another supplier could not sell the component without the patentee's permission. If this is the case, both subsections must allow the patentee an exclusive right to sell components, precisely the type of monopoly struck down by *Mercoid*.

Thus, the very language of Sections 271(c) and (d) demonstrates that Congress intended to overrule *Mercoid* and restore the non-staple form of the doctrine of contributory infringement. That doctrine approves the precise conduct of Rohm and Haas in this case.

II. The History Of 35 U.S.C. Section 271 Demonstrates That Congress Intended To Overrule *Mercoid* And Reinstate The Doctrine Of Non-Staple Contributory Infringement.

Mr. Justice Cardozo aptly expressed a fundamental canon of statutory construction when he observed that words or phrases in a statute are "freighted with the meaning imparted to them by the mischief to be remedied and by contemporaneous discussion. In such conditions history is a teacher that is not to be ignored." *Duparquet Co.* v. *Evans,* 297 U.S. 216, 221 (1936) (citation omitted).

[7] Note, *Combination Patents: The Right to Prohibit the Sales of Replacement Parts,* 70 Yale L.J. 649, 656 (1961).

A. The Court's holding in *Mercoid* was the mischief Congress sought to remedy.

The case law, by which this Court established the doctrine of contributory infringement, established the countervailing doctrine of patent misuse, and attempted to reconcile these two doctrines, illuminates "the mischief to be remedied" by Congress in enacting Section 271. The "mischief" occurred when the Court, in *Mercoid,* went too far in favor of the misuse doctrine and destroyed the distinction that had been drawn between staple and non-staple components of a patented invention. The compromise that had been reached prior to *Mercoid* was that if a component of an invention was a material non-staple, it was properly included within the scope of the patent rights; if the component was a staple, even one at the heart of the invention, it was not within the scope of the patent rights. Only the control of a component not within the scope of the patent rights can amount to an illegal "tie-in" which is a misuse of the patent.

The patent system and the patent laws find their foundation in Article I, § 8, cl. 8 of the United States Constitution, which provides that

> The Congress shall have Power . . . To promote the Progress of Science and the useful Arts, by securing for limited times to . . . Inventors the exclusive Right to their respective . . . Discoveries.

The doctrine of contributory infringement was developed to enable inventors to protect the full extent of

their Constitutional rights to their discoveries.[8] Since the doctrine was initially developed to be no broader than that necessary to accomplish this specific purpose, it was limited to non-staple components. In *Leeds & Catlin Co.* v. *Victor Machine Co.,* 213 U.S. 325 (1909) ("Leeds & Catlin"), the Court permitted a holder of a patent on a record player combination to control an unpatented disc at the heart of the invention which had no use other than in the patented combination (a non-staple).

Gradually, the original and narrow scope of the doctrine of contributory infringement was expanded to include essential staple components. But, eventually, in *Henry* v. *A.B. Dick,* 224 U.S. 1 (1912) ("A.B. Dick"), staple supplies that were not at the heart of the patented invention were included with the scope of the patent grant. Unfortunately, the original and narrow purpose for which the contributory infringement doctrine was developed was lost to the intellectually appealing, but nevertheless, erroneous, argument that because a patent allowed an inventor exclusive use of his invention, he might license that use under any and all terms, conditions and restrictions. *Id.* at 32. While the original contributory infringement doctrine was established on the premise that an essential non-staple component was properly within the patent grant, the expanded version of the doctrine was based, not on the scope of the patent grant, but rather on an

[8] The doctrine, although not so named, was first used in *Wallace* v. *Holmes,* 29 Fed. Cas. 74 (No. 17100) (C.C.D. Conn. 1871) (selling a non-staple burner which was at the heart of a patented lamp combination). It was premised on a joint-tortfeasor theory.

erroneous view of the commercial implications of the exclusive rights granted to the inventor. The non-staple contributory infringement doctrine struck a proper balance between the basic purposes and policies underlying the patent and antitrust laws. The improper extension of the doctrine created an intolerable conflict between these policies.

In response to this conflict, the Court developed the countervailing doctrine of patent misuse. In so doing, it rejected the premise, in *A.B. Dick,* upon which the non-staple contributory infringement doctrine had been so grossly expanded beyond its original purpose. The Court recognized that just because an inventor may prohibit others from using his invention, he does not have the automatic right to license his invention under any terms, conditions, or restrictions whatsoever. *Motion Picture Co.* v. *Universal Film Manufacturing Co.,* 243 U.S. 502 (1917) ("Motion Picture Patents"). In *Motion Picture Patents,* the Court would not permit a holder of a patent on a movie projection system to include within the scope of his patent the unpatented film which has substantial non-infringing use (a staple).

The Court applied these principles in a series of cases after *Motion Picture Patents,* and returned the doctrine of contributory infringement to its original non-staple form. In *Carbice Corp. of America* v. *American Patents Development Corp.,* 283 U.S. 27 (1931) ("Carbice"), the Court would not permit a holder of a patent on a refrigerator container to include within the scope of his patent the unpatented dry-ice which had substantial non-infringing uses. In *Leitch Mfg. Co.* v. *Barber Co.,* 302 U.S. 458 (1938) ("Barber As-

phalt''), the Court would not permit a holder of a patent on a process to include within his patent grant an unpatented staple component used in the process. In *Morton Salt Co.* v. *G.S. Suppiger Co.,* 314 U.S. 488 (1942) (''Morton Salt''), the Court refused to permit a holder of a patent on a salt vending machine to include within the scope of his patent the unpatented staple salt (in the form of tablets) which had substantial non-infringing uses. Although the Court declined to extend patent protection to staples in each of these cases, it recognized, and reaffirmed, the validity of the original contributory infringement doctrine enunciated in *Leeds & Catlin,* insofar as it applied to non-staples.[9]

Finally, in 1944, in *Mercoid,* the Court confronted activity similar to that of Rohm and Haas concerning an unpatented non-staple component. The Court specifically eliminated the non-staple doctrine of contributory infringement, overruling its prior decision in *Leeds & Catlin.* This demise of the non-staple form of the contributory infringement doctrine was the ''mis-

[9] In *Carbice,* Mr. Justice Brandeis acknowledged the continuing existence of the non-staple contributory infringement doctrine by distinguishing *Leeds & Catlin* as ''an ordinary case of contributory infringement.'' 283 U.S. 27, 34. In *Barber Asphalt,* Mr. Justice Brandeis distinguished *Leeds & Catlin.* When he said ''by the rule there declared, every use of a patent as a means of obtaining a limited monopoly on unpatented material is prohibited,'' he was referring to a staple. In *Morton Salt,* the tied product was so clearly a staple that the Court never referred to *Leeds & Catlin.* In *B.B. Chemical Co.* v. *Ellis,* 314 U.S. 495 (1942), there was confusion in the lower courts as to whether the component was a staple or a non-staple. The Supreme Court did not make the distinction between a staple and a non-staple nor refer to its prior decision in *Leeds & Catlin.*

chief to be remedied'' when Congress debated and enacted Section 271 of the 1952 Patent Code.[10]

B. The contemporaneous discussions support the Court of Appeals' interpretation of section 271

There was no general debate on the 1952 Patent Code. Therefore, the legislative history of Section 271 is largely limited to casual remarks of a few Members of Congress, as well as testimony and written statements by the major draftsmen of Section 271. The District Court below relied primarily on the casual remarks of two Members of Congress. The Court of Appeals, on the other hand, relied primarily on the testimony of the draftsmen of Section 271. In light of the extreme complexity of patent laws generally and Section 271 specifically,[11] the Congressional presentations of experts is the better basis for interpreting the intent of Section 271.

Petitioners rely on an exchange between Senator McCarran, Chairman of the Judiciary Committee, and Senator Saltonstall. (Pet. Br. 19-20.) The latter asked if the 1952 Patent Code changed the law or merely codified it. Senator McCarran replied ''it codifies the present patent laws.'' This coloquy, which was referred

[10] At the hearings on § 271, Mr. Rich, a principal draftsman of the section, was asked to clarify the purpose of the section for Congress. He was asked whether §§ 271(c) and (d) were intended to ''reestablish what you thought you had before the *Mercoid* case.'' Mr. Rich agreed, and explained that in order to do this, something had to be done to misuse. Hearings on H.R. 3760 Before Subcomm. No. 3 of the House Comm. on the Judiciary, 82d Cong., 1st Sess. (1951) at 173.

[11] The Court of Appeals stated that ''patent law is 'the metaphysics' of the law and that contributory infringement/patent misuse issues are the metaphysics of patent law.'' (A. 182.)

to by the Court in *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 347 n.2 (1961), does not demonstrate that Section 271 was intended to codify the *Mercoid* decision. As the Court of Appeals below recognized, a few minutes after this exchange Senator McCarran began introductory remarks which made it very clear that the patent act *was* intended to change existing law (A. 165-166).[12]

Another congressional comment upon which Petitioners rely is a statement by Representative Crumpacker, a member of the House Subcommittee which conducted hearings on the bill. But even Representative Crumpacker later stated that reliance on these remarks would be misplaced. At an American Bar Association meeting in San Francisco in 1962, Representative Crumpacker stated:[13]

> When the Courts, in seeking to interpret the language of the Act, go through the ritual of seeking to ascertain the "intent of Congress" in adopting

[12] The Patent Code was a revision and codification of all the patent laws including Section 103 and 271. Section 103 substantially changed the patent law in overruling the "flash of genius" test for patentability set forth in *Cuno Engineering Corp.* v. *The Automatic Devices Corp.*, 314 U.S. 84 (1941). Since Senator McCarran's casual remark is clearly incorrect with regard to Section 103, it is improper to use it to prove that Section 271 was not intended to change the law. *See also,* H.R. Rep. No. 1023, 82d Cong., 2d Sess. 5 (1952) and S. Rep. No. 1979, 82d Cong., 2d Sess. 4 (1952) which state, with regard to the codification of 35 United States Code, that the "major changes or innovations in the title consist of incorporating a requirement for invention in § 103 and the judicial doctrine of contributory infringement in § 271."

[13] Symposium on Patents, Summary of Proceedings, Section of Patents, Trademark and Copyright Law 143 (1962). *See* J. Scafetta, *Ten Years After Aro II; The Effect of Patent Act § 271 on the Patent Misuse Doctrine,* 26 S.C. L.Rev. 539 (1975), *reprinted in* 58 J. Pat. Off. Soc'y 69, 82-83 n. 46 (1976).

> same, they would do well to look to the writings of these men—Frederico, Rich, Harris, and the others—as they, far more than any member of the House or Senate, knew and understood what was intended by the language used.

Thus, Representative Crumpacker himself recommended the precise method of determining congressional intent with regard to Section 271 that was employed by the Court of Appeals below. The testimony of the draftsmen of Section 271, referred to by Representative Crumpacker, are analyzed in detail in the Court of Appeals' decision below and in the Rohm and Haas brief on the merits.

III. Public Policy Requires Affirmance Of The Court of Appeals' Interpretation Of Sections 271(c) And (d).

A. Compulsory licensing is against public policy

Petitioners' interpretation of Sections 271(c) and (d) would require the insertion of a compulsory patent licensing provision in Section 271(d). Although, in their brief, Petitioners initially deny that they support such a requirement (Pet. Br. 9), they later argue that compulsory licensing is not against public policy (Pet. Br. 29). Moreover, the ostensible alternatives to compulsory licensing which they posit are not in fact real alternatives.

Congress has carved out very limited technological areas for compulsory licensing. This Court has used compulsory licensing only as a means of undoing the anticompetitive effects of a *proven* violation of the antitrust laws. The compulsory licensing which Petitioners' interpretation of Section 271 would require is all-pervasive and cuts across all areas of technological

innovation, regardless of any proven violation of the antitrust laws.

The exclusive right of an inventor to his discovery is a constitutionally guaranteed right. The type of compulsory licensing required by Petitioners' interpretation of Section 271 directly eliminates this right and thus strikes at the very heart of the patent system. As one commentator has said:[14]

> [a] patent is a monopoly because its only value as an incentive depends upon securing to its owner monopoly power over the invention. That is the only thing that gives the possibility of profit. The economic power of monopoly is the mainspring of the patent system, a system whose ultimate purpose is the public good. Weaken or destroy the monopoly and you weaken or destroy the system.

Petitioners argue, incorrectly, that their interpretation of Section 271 does not require compulsory licensing since there are other altternatives available to exploit a method patent (Pet. Br. 30).

First, Petitioners argue that:

> Rohm & Haas could grant to other propanil producers the right to grant licenses to purchasers of propanil, with a royalty to be paid to Rohm and Haas by the other propanil producers.

This alternative would require compulsory patent licensing for direct infringement which is as much against public policy as compulsory patent licensing for contributory infringement.

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[14] Rich, *Infringement Under Section 271 of the Patent Act of 1952,* 21 Geo. Wash. L. Rev. 521 (1953); 35 J. Pat. Off. Soc'y 476, 479 (1953).

Second, Petitioners argue that:

> Rohm & Haas could license rice farmers directly to practice the patented method, charging a royalty based on acreage or volume of propanil used. This could be easily effected by the commonly used "label license," which states that a part of the purchase price is patent royalty, and that licenses to use propanil purchased from others are available for the same royalty.

According to the 1974 Census of Agriculture (Vol. 1, Part 51, U.S.D.A.), there are over nine thousand rice farmers in this country. Therefore, this alternative would be so burdensome and cumbersome to administer because of the large number of direct infringers that administrative costs might well exceed the patent royalties. Precisely these difficulties led to the doctrine of contributory infringement in the first place.

Third, Petitioners argue that:

> Rohm & Haas could license persons who are sprayers or applicators to practice the method, charging a royalty based on the volume of propanil used or acreage of crops sprayed.

This alternative is also a form of compulsory licensing. According to the Aviation Study and Program Plan Vol. II (Supplemental Information, June 9, 1976, NASA, Office of Aeronautical Space Technology), there are over three thousand aerial applicators in this country. Therefore, this alternative would also be impractical and burdensome to administer. Furthermore, this alternative means of exploiting a process patent would not be appropriate for the Rohm and Haas patent, and certainly not be available for method patents generally.

Fourth, Petitioners argue that:

> Rohm and Haas could operate rice farms, contract the spraying and not license anyone other than the spraying contractor.

This is not a practical alternative. It is not unusual for an inventor in one industry to discover a use for a component which, though it has no use in his industry, may be tremendously useful in another industry. The inventors' discovery probably resulted from years of work and experience in his own industry. It would be unfair and against sound economic principles to require the inventor to enter an industry in which he may have little or no knowledge before he may be permitted to reap the rewards of his discovery.

Fifth, Petitioners argue that:

> Rohm & Haas could practice the method itself, by spraying the rice fields, and not license anyone.

This alternative would also require Rohm and Haas to enter an unfamiliar industry—an impractical solution which is contrary to sound economic principles.

Thus, the alternatives to compulsory licensing suggested by the Petitioners are mere chimera. The fact is that reversal of the Court of Appeals would incorporate a compulsory licensing requirement into Section 271. Even the Justice Department has recognized the disadvantages of such a result.

In a speech on February 19, 1980, before the Conference on Cooperative Research at the Massachusetts Institute of Technology, Ky P. Ewing, Jr., Deputy Assistant Attorney General, Antitrust Division, stated that the Antitrust Division has learned the lesson that

compulsory patent licensing is indeed against public policy. In this regard, he stated:

> There is at least one lesson we might learn from the agreement to pool air frame design ideas, approved by the antitrust authorities in the heat of World War II, requiring air frame manufacturers to share with others patents improving air frame design [*i.e.*, compulsory patent licensing]. When the War was over, groups of inventors, outside the charmed circle, were rebuffed by the manufacturers who pointed out that they had no incentive to spend money for a new invention when they could get no competitive edge through its use. [Because they were compelled to license any new invention to the competition.] Inventors in fact led the effort with the Antitrust Division which resulted in the eventual withdrawal of the approval and the institution of a civil suit looking to restoration of a greater degree of competition, partly in order to restore the incentives to innovate and partly to bring to the marketplace the results of new inventions.

This position by the Deputy Assistant Attorney General is contrary to the position the Department of Justice takes in this case as Amicus Curiae.[15]

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[15] The Department of Justice, on behalf of the United States, has filed an amicus brief in support of Petitioners. The Department of Justice has a double-barrel bias in favor of the misuse doctrine and against the doctrine of contributory infringement. There are two patent sections in the Department of Justice: one is in the antitrust division, whose function it is to uphold the antitrust laws; the other is in the civil division, which only defends against patent infringement suits against the United States. The Department of Justice brief has the same thrust as the brief Amicus Curiae it submitted in the *Aro* cases, which was considered in the dissent by Mr. Justice Harlan (joined by Justices Frankfurter and Stewart) as advancing the same objections the Department of Justice presented to Congress and which Congress rejected

B. The decision of the court of appeals is consistent with the public policy and the acute needs of small business technology firms.

The decision of the Court of Appeals correctly preserves the public policies which underlie the patent system. In balancing the patent doctrine of contributory infringement against the antitrust doctrine of misuse, the Court is not merely balancing the rights of an individual inventor against the public's right to free and open competition. The rights of an individual inventor, such as Rohm and Haas, are but a means to a public end—the promotion of science and the useful arts. It is that end which Congress weighed when it enacted Section 271, and included non-staple components with no substantial non-infringing use within the scope of the patent grant.

Unless this Court affirms the Court of Appeals below, there will be an adverse impact on a wide variety of discoveries other than the use of propanil. A reversal by this Court would endanger the enforcement of many patents which are important to our economy. The doctrine of contributory infringement was developed because certain patents embody discoveries which are not susceptible to protection by infringement actions against a direct infringer. For such patents, there are typically a very large number of direct infringements (*e.g.*, by rice farmers or farmers generally). It

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in passing § 271. *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 372 (1961). The Department of Justice's present brief is but another attempt to persuade this Court to adopt arguments and objections which it knows full well that Congress rejected when it enacted § 271 over the strenuous opposition of the Department of Justice.

is precisely to protect the inventions represented by these patents that Congress reimposed the doctrine of contributory infringment in Section 271.

Unless this Court affirms the decision of the Court of Appeals below, the heaviest adverse impact of its ruling will be felt by small business technology firms. Such small firms do not have the financial ability to diversify into unrelated markets in order to reap the benefits of their discoveries. For example, a chemical firm much smaller than Rohm and Haas would not have had any option of entering the crop-dusting or farming industries if it were to have initially discovered and patented the use of propanil as a herbicide. It is extremely doubtful that such diversification is an economic option available to a firm as large as Rohm and Haas. Clearly, those options would not be available to the many small business technology firms whose assets and financial capabilities are much smaller.

Thus, for small firms, a reversal of the Court of Appeals' decision below would effectively incorporate a compulsory licensing requirement into Section 271. Compulsory licensing will discourage small business technology firms from devoting substantial resources to the discovery, development, and marketing of "new use" inventions which do not have direct use in their limited range of manufacturing activities. For the Court to create such a disincentive to invent would be most unfortunate in view of the importance of small business technology firms to technological innovation in this country.[16]

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[16] In Senate Comm. on Commerce, Science, and Transportation, 96th Cong., 1st Sess., National Strategy for Technological Innovation 34 (Comm. Print 1979), Ellis R. Mottur, a guest scholar at

As this Court balances the various public policies in favor of patent protection and competition, it should bear in mind that, in 1944, when *Mercoid* was decided, no nation on earth approached this country in its rate of technological innovation. However, today the rate of technological development in the United States is steadily falling behind that of other countries, such as West Germany and Japan. According to a report to the Senate Commerce Committee:[17]

> Despite America's impressive past record, innovation in the United States is currently lagging as compared with its challenges, competitors, and potential. Thus, in recent years, U.S. capital investment in innovative activities has fallen short; for

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the Woodrow Wilson International Center for Scholars, reported as follows:

> The small business contribution to technological innovation has been enormous, and the future potential is even greater. Thus, "small firms have compiled a striking record of innovation in the private sector. Firms with less than 1,000 employees accounted for almost one-half of major U.S. innovations during the period 1953-73." "On the basis of a sample of major innovations introduced to the market between 1953 and 1973, small firms (up to 1,000 employees) were found to produce about four times as many innovations per R. & D. dollar as medium-sized firms (1,000 to 10,000 employees) and about 24 times as many as large firms (over 10,000 employees). The total number of innovations produced by small firms was greater than for large firms."

[17] *Id.* at 1-2.

example, the capital obtained from public offerings by small firms dropped from $1.46 billion in 1969 to $16.2 million in 1975; Investment in R.&D. has stagnated: Federal funds for R.&D. in 1979 were 16 percent less than what they had been 12 years earlier; at the same time that Japan and West Germany recorded substantial growth in proportion of their GNP going to R.&D. Similarly, the proportion of scientists and engineers in the U.S. population has dropped since 1969, while it has shown an increase in most other advanced nations. America has shown a decline in its patent balance of 47 percent in recent years, and currently has a negative balance with Japan and West Germany . . . . Along with these distressing economic indicators, stands our failure to produce the innovations necessary to meet our compelling national needs in fields such as energy, environment, and transportation.

Experts have traced the nation's current economic woes to declining productivity and innovation. The Court would needlessly accelerate this downward spiral if it reverses the Court of Appeals and discourage technological development by small business technology firms. Now, more than ever, we urge this Court to recognize the plain meaning of Section 271 in order to maintain a major incentive for the discovery and innovation upon which our country depends.

CONCLUSION

For the foregoing reasons, the judgment of the Court of Appeals should be affirmed.

Respectfully submitted,

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MOTION FILED
MAR 21 1980

IN THE

Supreme Court of the United States

OCTOBER TERM, 1977

No. 79-669

DAWSON CHEMICAL COMPANY
CRYSTAL MANUFACTURING CORPORATION
AND
CRYSTAL CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE AND BRIEF OF AMICUS CURIAE NATIONAL SMALL BUSINESS ASSOCIATION

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v.

ROHM AND HAAS COMPANY,
Respondent.

MOTION OF NATIONAL SMALL BUSINESS ASSOCIATION FOR LEAVE TO FILE A BRIEF AMICUS CURIAE

The National Small Business Association hereby moves, pursuant to Rule 42, Rules of the United States Supreme Court, for leave to file the annexed brief *amicus curiae* in support of the opinion of the United States Court of Appeals for the Fifth Circuit, in the above-captioned proceedings. Consent to the filing of this brief *amicus curiae* has been withheld by counsel for Petitioners.

The National Small Business Association (NSB) is a non-profit, tax-exempt trade association organized and operating under the laws of Ohio, whose purpose it is to represent and serve the needs of its constituent members before Congress and agencies of the federal government. The NSB membership is comprised of a

broad spectrum of industries and associations which constitute a substantial and representative portion of the small business community of this country.

The accompanying brief urges this Court to uphold the decision of the United States Court of Appeals for the Fifth Circuit, and by so doing to reaffirm its commitment to the enforcement of the patent laws to protect the rights of patentees. NSB believes it can bring to this case a perspective, not fully represented by the parties, which may assist this Court in its consideration of the case.

Accordingly, NSB respectfully requests leave to file the annexed brief *amicus curiae*.

Respecfully submitted,

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ROHM AND HAAS COMPANY,
Respondent.

BRIEF FOR AMICUS CURIAE
NATIONAL SMALL BUSINESS ASSOCIATION

INTRODUCTION

National Small Business Association (NSB) is filing this brief *amicus curiae* with the consent of Respondent. Consent to the filing of this brief *amicus curiae* has been withheld by counsel for Petitioners.

The Court of Appeals for the Fifth Circuit has ruled that the activities of Rohm and Haas in enforcing its rights under its patents were permitted by the provisions of 35 USC §271(d), and did not amount to patent misuse. This Court is requested to affirm that decision of the Court of Appeals for the Fifth Circuit.

Many members of NSB employ the patent system as established by federal laws as a means of obtaining a modicum of protection for their ideas and inventions.

The patent system, properly supported and recognized, presents a valuable road to achieving a degree of exclusivity that permits the members of the *amicus* to establish and exploit a market for the benefit of the *amicus* as well as for the public interest. The public interest is served by being provided with access to new products and to the information embodied in the issued patents.

IDENTITY OF AMICUS CURIAE

NSB is a non-profit, tax-exempt trade association organized and operating under the laws of the State of Ohio, whose purpose it is to represent and service the needs of its constituent members before Congress and agencies of the federal government. NSB membership is comprised of a broad spectrum of industries and associations which constitute a substantial and representative portion of the small business community and this country.

Some of the members of NSB utilize the patent system and are therefore interested in preserving it to its fullest extent. The reward of the grant of a patent is a property right giving the holder of the patent a right to exclude others from making, using and selling the invention disclosed and claimed essentially within the framework of one or more claims attached to the end of the disclosure (known as the specificiation) of the patent. In exchange for this property right, the inventor must

disclose his invention in such a manner as to enable one skilled in the art to understand the invention. This enables other to design around the subject matter claimed in the patent and, ultimately, to use the disclosure of the inventor to further technology.

The membership qualificiations of NSB are parallel to those employed by the Small Business Administration in designating small business.

INTEREST OF AMICUS CURIAE

The aforementioned membership of NSB who utilize the patent system have a material concern in the ultimate outcome of the decision to be rendered by this Court in the instant matter. This case presents another opportunity for this Court to serve the public interest by affirming the doctrine of contributory infringement as codified in 35 USC §271 so that inventors of new uses for known compounds are afforded protection for their discoveries.

SUMMARY OF THE ARGUMENT

The doctrine of contributory infringement, codified by 35 USC §271(b), (c), and (d), provides a means to stimulate innovation. Patent owners can prevent direct infringement by bringing suit against those who sell materials and elements intended to be used in an infringing manner.

If a patentee can be assured of protection for discovering a new use for an old compound, innovators are encouraged to devise such use. This is of particular importance to small businesses, which may not have the facilities to produce and test new compounds for toxicity, but which can experiment with new uses for compounds whose toxic effects are known. Patent protection provides the incentive of a seventeen year exclusivity of use, thus encouraging the discovery of new uses for known compounds.

Encouraging the development of new uses for known chemical compounds benefits society as a whole. It is cheaper to pay tribute to an inventor for discovering a new use for an existing compound than to pay the cost of conducting an elaborate testing procedure for a new compound.

The statutory provision for protection involving contributory infringement limits protection of a chemical compound to the one use claimed in the patent. There is thus an incentive for others to find other uses for the compound to circumvent the claims and thus avoid contributory infringement.

The legislative hisotry of the statute showed an intent of the Congress to extend the patent grant to include the doctrine of contributory infringement. A majority of the witnesses testifying indicated that 35 USC §271 was to codify the law of contributory infringemetn as it existed prior to the *Mercoid* decisions.

ARGUMENT

1. The Doctrine of Contributory Infringement, Codified by 35 USC §271, Provides an Incentive to Innovation.

The Constitution of the United States, Article I, Section 8 Clause 8, specifically provides:

> "The Congress shall have power . . . to promote the progress of . . . useful arts, by securing for limited times . . . inventors the exclusive right to their . . . discoveries."

The present patent statute, 35 USC, places limitations on the exclusivity afforded inventors for their discoveries. The exclusivity is only for seventeen years, and the exclusivity is not awarded for obvious "inventions", therefore, nothing is taken from the public by the inventor.

Discovering a new and unobvious use for a known compound clearly falls within the purview of inventions the present statute was designed to protect, thus affording the inventor of such a use protection for his discovery. The seventeen year exclusivity of such use provides an incentive for an inventor to devise a new, use and to disclose it to the public in exchange for a patent.

However, if the Court of Appeals decision is not affirmed in this case, patent protection for a new process for using a known compound will be meaningless. If a modern invention thief involves the doctrine of misuse of the patent to nullify the doctrine of contributory infringement of a claim to using a compound, the patentee is left with little or no protection for his invention.

The doctrine of contributory infringement makes it possible to enforce a patent where it would otherwise be impractical given a universe of infringers where it is difficult to identify an infringer on an individual basis and the degree of infringement by each infringer is infrequent and minimal. To deny a patentee protection for his patent by abrogating the doctrine of contributory infringement makes a mockery of the patent grant.

In commenting on the inequity of allowing patent protection to be nullified in this manner, Giles S. Rich, now Judge of the United States Court of Customs and Patent Appeals, commented:

> "It is a fraud on the public to issue [new use] patents and then blandly inform their owners in the midst of litigation that 'it is without significance' that there is no way either to exploit or enforce the patent without committing such 'misuse' as will deprive the patentee of the aid of the courts" J.P.O.S. **35,** No. 7, 476, 479 (1953).

Courts have accepted the doctrine of contributory infringement as an acceptable means for affording protection to a patentee. In *Thompson-Houston Electric Co.* v. *Ohio Brass Co.,* 80 Fed. 712, 721 (6th Cir., 1897) Judge Taft said, "If this helpful rule is not to apply to trespass upon patent property, then, indeed, the protection which is promised the inventor is a poor sham".

This Court, in commenting upon the doctrine of contributory infringement after enactment of 35 USC, in *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.,* 377 U.S. 476, 492, 122 Ed. 2d. 457 (1964), said that:

> "Congress enacted §271 for the express purpose of reinstating the doctrine of contributory infringement as it had been developed by decisions prior to *Mercoid,* and of overruling any blanket invalidation of the doctrine that could be found in the *Mercoid* opinions."

The doctrine of contributory infringement, thus allowing a patentee to enforce his patents, was codified in 35 USC §271, and specifically provides in §271(d) that:

> No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty by reason of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

2. Small Business can Benefit from Patent Protection for New Uses of Known Compounds.

The total number of chemical compounds presently in existence is now in excess of four million. In a telephone conversation in June, 1978, with Dr. Colin Swithenbank of Rohm and Haas Company, Ms. Karen Sanderson of *Chemical Abstracts* informed Dr. Swithenbank that the total number of compounds then registered with *Chemical Abstracts* was 4.2 million. It should be noted that, in addition to those compounds which have been specifically identified in a sense to be recognized by *Chemical Abstracts,* an even larger number of compunds are named in patent specifications, either by way of generalized lists or by formulas.

Of these chemical compounds, some 47,000 are complied by TSCA. These compounds include all compounds in commercial use in the United States except pesticidal and pharmaceutical compounds. Intermediates used in manufacturing pesticides and pharmaceuticals, as well as polymers, are included in the TSCA list. Thus, there are approximately 50,000 chemical compounds for which toxicity data have been established.

Evaluating a chemical compound's toxicity is expensive in both time and financial outlay, which outlay can be justified only if sales of the compound are of such magnitude as to allow the developer of the compound to recoup his testing expenses. Many small business, because of this financial outlay, cannot justify the expense of developing new chemical compounds. However, given a known chemical

compound, the toxicity of which has already been established, a small concern can develop new uses for the compound which may be economically attractive without the overwhelming expense of testing for toxicity.

Patent protection for a new use for an existing (tested) compound thus encourages development of new uses for old compounds. There is thus an incentive for such development in the seventeen year exclusivity provided by a patent on the new use.

However, the patent protection for a new use is meaningless unless the patentee can be protected against the incursions of others marketing the compound *for the specific, patented use.* Of particular importance in this case is the compound, already known, for which no commercial use other than the use covered by the patent claims exists. The statute speaks to this very situation in 35 USC §271(c), to wit:

> Whoever sells a component of a patented . . . composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributing infringer.

The present case, involving a new use for a known compound, which compound has no other known use, provides a clear example of what protection 35 USC

§271(c) can offer the patentee of a new process for using a known compound.

Encouragement of developing new uses for known compounds will benefit society in the form of many businesses marketing compounds for new uses. It is less expensive for the consumer to pay tribute (in the form of royalties or the like) to the discoverer of a new use for a compound whose toxicity is know, than to pay tribute (in the form of royalties) as well as to cover the cost of the elaborate testing required to determine the toxicity of a completely new compound.

Pure research in the form of developing new compounds is generally carried on by large corporations, universities and the government. Of these, only large corporations can afford the expenses involved in testing compounds for their effect on man and his environment. However, small businesses can develop new and important uses for previously tested compounds without the enormous costs involved in testing the compounds for toxic effects. Thus, the developmental work of small businesses can complement the purely experimental work of large corporations, universities, and government, in providing commercially available, affordable compounds having significant usefulness for society.

The incentive for this developmental work is patent protection, providing a seventeen year exclusivity for that use. But, the patentee must be permitted to enforce the patent against contributory infringers as well as direct infringers. Without the doctrine of contributory infringement, a patent on a new use for a known compound is meaningless.

As an example of the value of the doctrine of contributory infringement, consider the case of a small business specializing in chemicals and formulations for the cosmetic industries. The business owns a patent directed to a method of using sun screen formulations, the formulations having no substantial use outside of the claimed method. If the decision of the United States Court of Appeals is not upheld by this Court, the small company's only remedy for infringement would be against the ultimate user, e.g., a sun bather. This is a particularly impractical remedy for a small company, and defeats the effect of the patent claims.

It should be emphasized that the protection afforded by the doctrine of contributory infringement is solely for the use claimed in the patent. This limitation of protection provides an incentive for others to find other uses for the compound to circumvent the patent claims and thus avoid contributory infringement.

Another example of the value of the doctrine of contributory infringement is a situation wherein a new use is discovered for known compound A in combination with compound B, i.e., a new composition. To hold agaisnt the doctrine of contributory infringement is to imply that in all cases when a compound is known that all uses for the compound, those already known as well as those not yet discovered, are immediately in the public domain. Thus, it can be said that a claim to A and B is unenforceable because the use of compound A in a composition with B is unenforceable.

A more concrete example can be given in the case of a new, unobvious dentifrice composition. Stannous fluoride is a known compound. Without the doctrine of

contributory infringement protecting such combinations, the combination of stannous fluoride and a dentifrice composition would not be protectible to the patentee of such a combination.

3. It was the Intent of Congress to Extend the Patent Grant to Include the Doctrine of Contributory Infringement.

The legislative history of 35 USC §271 evidenced an intent of the Congress to extend the patent grant to include the doctrine of contributory infringement.

The statutory provision of contributory infringement, 35 USC §271, was enacted by Congress to respond to a need to protect patentees in situations like the instant case where enforcement of the patent against infringers is excessively burdensome. The statutory provision was carefully crafted to afford protection only under certain exacting condition. These conditions include that the composition for use in practicing a patented process constitutes a material part fo the invention, *and* that the infringer knows that the composition is especially made or especially adapted for use in infringement of the patent, *and* it is not a staple article of commerce. When, and only when, the exacting conditions have been met, there can be contributory infringement.

It should be noted that the majority of the witnesses testifying before the Congress, whether or not they agreed with the intent of the bill, agreed that §231 [now §271] was to codify the law of contributory infringement as it existed prior to the *Mercoid* decisions [*Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661, 60 USPQ 21 (1944) and *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 60 USPQ 30 (1944).

This Court has also affirmed the statutory doctrine of contributory infringement as overruling the *Mercoid* decisions. In his concurrence in *Aro Manufacturing* Co. v. *Convertible Top Replacement Co.*, 365 U.S. 366, 128 USPQ 354 (1961), *Aro I*, Mr. Justice Brennan stated:

> "It is true that some decisions of this Court in patent misuse cases raised doubt as to the continuing vitality of this standard in actions such as this one for relief from contributory infringement. But the Congress swept away that doubt when it gave the standard statutory sanction in 1952."

Yet again this Court affirmed the viability of the doctrine of contributory infringement in *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 141 USPQ 681 (1964), *Aro II*. In *Aro II* this Court stated that §271 ". . . was designed to codify in statutory form principles of contributory infringement which had been part of our law for almost 80 years". The Court also referred to Congressman Rogers' statement, H.R. Rep. 3760, 82nd Cong., 1st Sess., 1951 at 159:

> "Then in effect this recodification, particularly as to section 231 [which became §271 in the Patent Code of 1952], would point out to the court, at least that it was the sense of Congress that we remove this question of confusion as to whether contributory infringement existed at all, and state in positive law that there is such a thing as contributory infringement, or at least it be the sense of Congress by the enactment of this law that if you have in the *Mercoid* case done away with contributory infringement, then we reinstate it

as a matter of substantive law of the United States and that you shall hereafter in a proper case recognize or hold liable one who has contributed to the infringement of a patent".

Citing 35 USC §271(c), (d), the Court went on:

". . . Congress enacted §271 for the express purpose of reinstating the doctrine of contributory infringement as it had been developed by decisions prior to *Mercoid,* and of overruling any blanket invalidation of the doctrine that could be found in the *Mercoid* opinions." Citing *Hearings, supra,* at 159, 161-162; and the Aro I opinions of Mr. Justice Black, 365 U.S. at 348, 349 and n.n. 3-4; Mr. Justice Harlan, *id.,* at 378; and Mr. Justice Brennan, *id.,* at 365-367.

Thus the legislative history of the present statute as well as this Court's comments on it, showed a clear intent of the Congress to extend the patent grant to include the doctrine of contributory infringement as it existed prior to the *Mercoid* decisions.

CONCLUSION

For the reasons stated herein, the decision of the Court of Appeals should be affirmed.

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MOTION FILED
MAR 21 1980

IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

No. 79-669

DAWSON CHEMICAL COMPANY, ET AL.,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

MOTION FOR LEAVE TO FILE BRIEF AND BRIEF FOR CHEMICAL MANUFACTURERS ASSOCIATION AS *AMICUS CURIAE*

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Respondent.

MOTION FOR LEAVE TO FILE BRIEF FOR CHEMICAL MANUFACTURERS ASSOCIATION AS *AMICUS CURIAE*

Pursuant to Rule 42 of the Rules of this Court, the Chemical Manufacturers Association (CMA) respectfully moves the Court for leave to file the attached brief as *amicus curiae* in the above-captioned case. Counsel for Respondent has consented to the filing of the attached brief. The consent of Petitioners was requested but refused.

The interest of CMA as *amicus curiae* is set forth more fully at pp. 1-4 of the attached brief. In summary, CMA is a voluntary, non-profit membership association of 204 chemical companies in the United States and Canada. CMA and its members believe that the patent system provides a critical incentive to innovation and research by industry and that reversal of the decision

below would impair this needed incentive in important respects.

The primary purpose of the attached brief is to discuss, more fully and from a broader perspective than the briefs for the parties and for the United States, the economic consequences of reversal of the decision below. CMA filed a similar brief in the Court of Appeals, and respectfully suggests that the attached brief will aid this Court in its consideration of the merits of this case.

Respectfully submitted,

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BRIEF FOR CHEMICAL MANUFACTURERS ASSOCIATION AS *AMICUS CURIAE*

QUESTION PRESENTED

Whether by virtue of section 271 of the Patent Act of 1952, 35 U.S.C. § 271, or otherwise, the owner of a method patent, who gives an implied license with the sale to users of a non-staple component, may decline to license others to make and sell the component, without committing patent misuse.

INTEREST OF AMICUS

The Chemical Manufacturers Association (CMA) is a voluntary non-profit membership association of 204

chemical companies in the United States and Canada representing over 90 percent of the production capacity of basic industrial chemicals within these countries. CMA has often represented the interests of its member companies in legislative, regulatory and judicial matters.

This case raises important issues concerning whether the patent laws will continue to serve as an effective incentive for research and development that results in new and valuable uses for existing chemical compounds. Patents granted for method of use inventions enjoy the same standing under the patent laws as do patents granted for inventions of machines, articles of manufacture or chemical compounds themselves. Moreover, such inventions play a particularly important role in the chemical industry: a 1975 report, for example, stated that of approximately 33,600 major new chemical developments each year, 8,400 represent new applications for existing chemicals.[1] These new applications require at least as much invention and research as do other types of inventions, and they provide benefits to the public at least as great. The science of organic chemistry has reached a state of development where skilled chemists, using advanced techniques and sophisticated equipment for synthesis, separation and analysis, can call into existence an almost limitless number of new compounds. The true value of chemical research often lies as much in the discovery of a new and valuable application for an existing compound as in the discovery of a new compound. The development of the patented Wilson method (at issue in this case) for the herbicidal use of the chemical compound, "propanil"—a method which has made possible substantial increases in rice production—provides an excellent example of the importance of such inventions.

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[1] Foster D. Snell, Inc., *Survey of the Chemical Industry 6* (June 26, 1975).

These issues are particularly significant for the chemical industry, because it has been required to allocate about 50 percent more of its net sales income to research and development than industry generally.[2] As environmental and safety requirements have multiplied, development and testing costs have increased, and the percentage of the innovative products and applications that survive the regulatory hurdles has sharply decreased. Thus, of the approximately 33,600 major new chemicals and new applications for existing chemicals developed each year, only 6,900 have been commercially successful. Of the 8,400 new applications, only 1,800 became commercially successful.[3] Companies therefore have become increasingly dependent on the profitability of the "surviving" innovations in the marketplace to recoup their massive investment in research and development and to maintain a constant level of innovation.

The Constitution authorized and Congress designed the patent system as an incentive to innovation that would give individuals and firms, for a limited period of time, the exclusive right to the value of their inventions. The patent system thereby provides a means for recouping investment in the development of new products and product applications via those that are commercially successful. As we show in Part II *infra*, it is often impracticable for the inventor of a new method of use either to practice the invention himself or to give express licenses to (and collect royalties from) users. In those situations, reversal of the decision below will make it more difficult for method patentees to recover the value of their inventions and thus to recoup the costs of research and development. Reversal would be particularly inadvisable because obligatory licensing of competitors would have costs far more serious than the costs

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[2] *Id.* at 41.

[3] *Id.* at 6.

of the exploitation method selected by the patentee here; that method, moreover, has no significant adverse competitive consequences. Because the result of reversal would be to limit the incentives provided by the patent laws for the development of new applications, without serving any good purpose, CMA submits this brief on behalf of its members.

STATEMENT

Respondent Rohm and Haas Company is the holder of a patent that describes a method of controlling weeds in rice crops. The chemical agent used in this process is "propanil," an unpatented compound for which there is no other commercial use. It was obviously impractical for Rohm and Haas to reserve the practice of this method to itself and prohibitively expensive to collect royalties from direct licenses to thousands of rice producers. Rohm and Haas concluded that the only practicable way by which it could realize the value of its invention was through the sale of propanil, which sales, of course, carry with them implied licenses [4] for its use in the patented process. Rohm and Haas did not offer separate licenses to users, and refused the request of other manufacturers of propanil for licenses which the manufacturers could then sub-license to their customers. When these manufacturers continued to sell propanil, Rohm and Haas brought suit for contributory infringement.

The district court held that Rohm and Haas' method of exploiting its patent constituted patent misuse. 191 U.S.P.Q. 691, App. 67. The Court of Appeals reversed, 599 F.2d 685, App. 139, holding that this method of exploitation is expressly sanctioned by section 271 of the Patent Act of 1952, 35 U.S.C. § 271.

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[4] As used herein, the term "implied license" refers to the authorization to use a patented process which arises by operation of law upon the patentee's sale of a component for that purpose.

SUMMARY OF ARGUMENT

We argue here that the decision of the Court of Appeals should be affirmed substantially for the reasons set forth in its thorough opinion. The express language of section 271 authorizes Rohm and Haas' conduct. The legislative history demonstrates that Congress intended in enacting that section to overrule this Court's *Mercoid* decisions,[5] which extended the doctrine of patent misuse to bar actions for contributory infringement against sellers of an unpatented component with no other use save as part of a patented combination.

This conclusion is buttressed by an examination of the alternatives available to the holder of a process patent like Rohm and Haas; that examination demonstrates that the method selected by Rohm and Haas is least costly to users and has no significant anticompetitive consequences. We further argue that, quite apart from the application of section 271, refusal by Rohm and Haas to offer separate licenses to users or to its competitors should not be held to constitute patent misuse, because that doctrine should be invoked only with respect to licensing or other practices that are contrary to the policies underlying the patent and antitrust laws, a situation not present here.

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[5] *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944); *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944).

ARGUMENT

I. THE LANGUAGE AND LEGISLATIVE HISTORY OF SECTION 271 MAKE CLEAR THAT ROHM AND HAAS' METHOD OF EXPLOITING ITS PATENT DOES NOT CONSTITUTE MISUSE.

Our purpose in this section is merely to highlight certain aspects of the language and legislative history of section 271 that are developed at greater length in the opinion of the Court of Appeals and in Respondent's brief. The careful and thoughtful opinion of the Court of Appeals held that the language of section 271, bolstered by the legislative history, sanctioned Rohm and Haas' chosen method of exploiting its method of use patent by means of implied licenses to users who purchased propanil from it. We submit that the decision below should be affirmed substantially for the reasons set forth in that opinion.

Section 271(c), which defines the cause of action for contributory infringement,[6] clearly applies to the conduct of Petitioners here, and Petitioners have so conceded (Br., p. 6). Petitioners (1) sell a "material for use in practicing a patented process"; (2) the substance is a "material part of the invention"; (3) Petitioners know that the substance is specially adapted for infringement of the patent; and (4) propanil is not a "staple article" as defined.

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[6] That section provides:

> "Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer."

35 U.S.C. § 271(c).

It is equally clear that Rohm and Haas has done no more than those acts permitted by the express terms of section 271(d), which limits the doctrine of patent misuse as a defense to a contributory infringement action.[7] All Rohm and Haas has done, first, is to sell a non-staple component, propanil—or "derived revenue" from these sales as a "contributory infring[er]" might do—as Rohm and Haas is permitted to do by section 271(d)(1). Second, Rohm and Haas has brought suit against petitioners for contributory infringement, as it is permitted to do by section 271(d)(3). Section 271(d)(1) and (3), taken together, authorize Rohm and Haas to act precisely as it has acted: to sell propanil itself and to sue to exclude as contributory infringers those persons, like Petitioners, who sell propanil in violation of section 271(c).

Petitioners make no attempt to explain the straightforward language of the statute, and the Government in its brief *amicus curiae* claims only that section 271(d) does not in terms address the specific facts of this case (Br., p. 13). It argues that even though section 271(d)(1) permits a process patentee to sell a non-staple component with an implied license to use it in the process, that section does not authorize such a sale as the exclusive method of exploiting such a patent. Thus, the

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[7] It provides:

> "No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement."

35 U.S.C. § 271(d).

argument runs, to avoid misuse the patentee must also offer separate licenses either to users or to competing manufacturers. The Government, however, cites no language in section 271 that supports its argument that a patentee, in order to avoid misuse by reason of section 271(d), must first take some other action, like the offering of separate licenses.

Indeed, section 271(d), which, as we show below, was enacted in response to the decisions in the *Mercoid* cases,[8] would have little meaning unless it were read to legitimize sales of a non-staple by a process patentee as the exclusive means of exploiting his patent. Read as the Government would have it, section 271(d)(1) does nothing more than authorize a process patentee to sell a component. While *Mercoid* had precluded such sales as the *exclusive* way of exploiting a process patent, nothing in *Mercoid* or in any other case had ever suggested that a use patentee could not sell a component used in the patented process, as one of many sellers. Thus, even after *Mercoid*, no statute was necessary to give a patentee this right.[9]

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[8] *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944); *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680 (1944).

[9] Giles S. Rich, the principal draftsman of section 271, advised the House Committee that subsection (d)(1) was intended to overrule *Barber Asphalt Corp.* v. *La Fera Grecco Contracting Co.*, 116 F.2d 211 (3d Cir. 1940), at least insofar as the rule in that case might have been applied to non-staples. *See Patent Law Codification and Revision: Hearings on H.R. 3760 Before Subcomm. No. 3 of the House Comm. on the Judiciary*, 82d Cong., 1st Sess. 174, 207 (1951) (*"1951 Hearings"*) In *Barber*, the Court of Appeals found misuse where the patentee licensed users but had manipulated its royalty rates by price discrimination in favor of those who also purchased the unpatented goods from it. This is no less calculated to "extend" the patent monopoly than is the express or implied conditioning of a license on the purchase of an unpatented commodity. *See* Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 Yale L.J. 267, 318 (1966). If section 271(d)(1) was intended to permit a patent-holder to exclude competing sellers of non-staples by charging discriminatory royalties to licensees who purchase non-staple articles from it—thereby effectively preventing other sellers from competing with it—there is no reason, as a matter of economic analysis, why the statute should not be construed to permit it to exclude competing sellers by refusing licenses.

The legislative history of section 271 supports this natural reading of the statute. Prior to the *Mercoid* cases, this Court had never held that the doctrine of patent misuse provided a defense to an action for contributory infringement where the patentee had conditioned the licensing of its patent on the purchase from it of an unpatented non-staple component.[10] *Compare Leeds & Catlin Corp* v. *Victor Talking Machine Co.*, 213 U.S. 325 (1909) (recovery for contributory infringement allowed where component was non-staple) *with Carbice Corp* v. *American Patent Development Corp.*, 283 U.S. 27 (1931) (patent misuse found where component was staple). The decisions in the *Mercoid* cases, which involved stoker switches used in a combination patent for a heating system, appeared expressly to overrule the *Leeds & Catlin* case. *See Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. at 668. The Court assumed that the stoker switches had no commercial use except in the combination. Nevertheless, the Court found patent misuse by the patentee and its exclusive licensee in refusing to license the combination unless the stoker switches were purchased from them. Furthermore, Mr. Justice Douglas intimated that *Mercoid* may have eliminated the contributory infringement doctrine altogether. *Id.* at 669 (dictum).

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[10] *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495 (1942), did not involve a non-staple. As the Court of Appeals noted, 599 F.2d at 695, App. 157, this Court in *B. B. Chemical* did not address the question of the character of the component sold. While the Court of Appeals in that case evidently assumed the component was a non-staple, the district court in *B. B. Chemical* clearly found that the product was a staple. *See B. B. Chemical Co.* v. *Ellis*, 32 F. Supp. 690, 698 (D. Mass. 1940).

Congress in enacting section 271 intended to reinstate the doctrine of contributory infringement as it existed before *Mercoid*.[11] Giles S. Rich, the principal draftsman of the provisions that became section 271 [12] and now an Associate Judge of the Court of Customs and Patent Appeals, testified extensively on the purpose of the provisions. He more than once indicated that "[t]he exception which we wish to make to the misuse doctrine *would reverse the result in the Mercoid case*" and would revitalize *Leeds & Catlin*. *Contributory Infringement: Hearings on H.R. 3866 Before Subcomm. No. 4 of the House*

[11] This Court has stated that section 271 overruled *Mercoid*. In *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476 (1964) (*Aro II*), it concluded that

> "Congress enacted § 271 for the express purpose of reinstating the doctrine of contributory infringement as it had been developed by decisions prior to Mercoid. . . ." 377 U.S. at 492.

Moreover, the opinion for the Court in *Aro II* cited with approval both the dissenting opinion of Mr. Justice Harlan (joined by Justices Frankfurter and Stewart) and the concurring opinion of Mr. Justice Brennan in *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336 (1961) (*Aro I*). For Mr. Justice Harlan, the statutory purpose was readily discernible:

> "It seems clear from the legislative history of the 1952 Act that Congress intended (1) to reaffirm the doctrine of contributory infringement . . . in cases like *Leeds & Catlin*, [and] (2) to give that doctrine precedence against a claim of patent misuse as conceived in the *Mercoid* cases, at least where the misuse is said to inhere simply in assertion of patent rights." 365 U.S. at 378 n.6.

Similarly, in his concurrence, Mr. Justice Brennan left no doubt that, given section 271, the principles of *Leeds & Catlin* survived *Mercoid*. *See id.* at 365-67 & nn. 4-10.

[12] Section 271 was an outgrowth of bills, first introduced in 1948 and again in 1949, that were directed solely to the question of contributory infringement. H.R. 5988, 80th Cong., 2d Sess. (1948); H.R. 3866, 81st Cong., 1st Sess. (1949). The bill that became the Patent Act of 1952 incorporated essentially the same provisions, though in different language, into a general codification of the patent laws. *See generally* Federico, *Commentary on the New Patent Act*, 35 U.S.C.A., at 6-8 (West 1954).

Comm. on the Judiciary, 81st Cong., 1st Sess. 67, 68-69 (1949) ("*1949 Hearings*") (emphasis added).[13] The Justice Department, opposing the legislation, also recognized the purpose of the bill. Wilbur L. Fugate, testifying in 1951 on behalf of the Antitrust Division, told the Committee that section 271(d) "would have the effect of wiping out a good deal of the law relating to misuse of patents, particularly with reference to tying-in clauses." [14] *1951 Hearings* 165.

The congressmen present at the 1951 hearings on the proposed patent legislation understood that section 271 did more than merely codify the case law on contributory infringement. Congressman Rogers, for example, stated his understanding that the purpose of the Act was to "reinstate" the doctrine of contributory infringement. *1951 Hearings* 159. And, at another point, he expressed his view that the proponents of the bill were asking Congress to "reestablish what you thought you had before the *Mercoid* case." *1951 Hearings* 173.

Judge Rich repeatedly emphasized the important distinction between staples and non-staples in the application of the misuse doctrine. He explained that, while

[13] *See also 1951 Hearings* 161; *Contributory Infringement in Patents: Hearings on H.R. 5988 Before the Subcomm. on Patents, Trade-Marks and Copyrights of the House Comm. on the Judiciary*, 80th Cong., 2d Sess. 4-5 (1948) ("*1948 Hearings*"). Petitioners imply (Br., p. 20) that there is nothing to suggest Congress was aware of Judge Rich's earlier testimony. However, Judge Rich in his 1951 testimony expressly referred to his earlier testimony. *1951 Hearings* 150-51, 161.

[14] *See also 1949 Hearings* 52 (remarks of John C. Stedman); *1951 Hearings* 97 (Statement of T. Hayward Brown). While the statements of opponents of legislation may not always be authoritative, they are entitled to weight, particularly when, as is the case here, both proponents and opponents agree about the effect of proposed legislation. *First Nat'l Bank* v. *Walker Bank & Trust Co.*, 385 U.S. 252, 261 (1967); *Arizona* v. *California*, 373 U.S. 546, 582-83 n.85 (1963).

exclusive sales of an unpatented *staple* component by a patent-holder would permit a court to find misuse, the same would not be true as to non-staples under section 271(d) as proposed:

> "MR. WILLIS: All right, what would the bill do to the misuse doctrine? Would it preserve it and to what extent.
>
> "MR. RICH: It would preserve it in such cases as the Carbice case . . . , where the things dealt with are staple commodities of commerce and not especially for use in infringement of patents. . . . The only change made by the decision in the Mercoid case was to extend the misuse doctrine so as to apply to . . . elements having no other use than in an infringement." *1949 Hearings* 68.[15]

The Committee reports corroborate Judge Rich's view of the purpose of the statute. The view of the Petitioners (Br., pp. 19, 22) and the Government (Br., pp. 16-17) that these reports show only that Congress intended to codify the law as it existed after *Mercoid*, is simply not correct. The House Committee stated that while the primary purpose of the Act as a whole was codification, "there are a number of changes in substantive statutory law." Among the "major changes or innovations" was

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[15] *See also 1951 Hearings* 166-67; *1948 Hearings* 17-18 (1948) (letter from Theodore Kenyon, patent attorney).

Petitioners distort Judge Rich's testimony. They claim (Br., p. 21) that Rich agreed with Congressman Crumpacker that section 271(d) would not prevent a holding of misuse where a patentee was "trying to gain a limited monopoly of unpatented articles." *1951 Hearings* 173-74. The hearings indicate that Judge Rich had in mind only monopolization of staples when he answered Congressman Crumpacker's question. Before responding, Judge Rich qualified the question, asking "If we assume that staples are excluded from paragraph (c)?" *1951 Hearings* 173. Only then did Judge Rich assent. He evidently contemplated that paragraph (d) permitted a finding of misuse only where the unpatented product sold was a staple.

incorporation of the "judicial doctrine of contributory infringement." H.R. Rep. No. 1923, 82d Cong., 1st Sess. 5 (1952).

Both Reports indicate that the clear purpose was to revitalize the doctrine of contributory infringement, which "has been part of our laws for about 80 years." *Id.* at 9; S. Rep. No. 1979, 82d Cong., 2d Sess. 8 (1952). Congress intended to eliminate the "[c]onsiderable doubt and confusion as to the scope of contributory infringement [that] has resulted from a number of decisions of the courts in recent years." H.R. Rep. No. 1923, at 9; S. Rep. No. 1979, at 8. Further, the Reports stressed, as Judge Rich did, that only non-staples are included in the definition of contributory infringement. Finally, the Reports' discussion of section 271(d) emphasized that the section "provides that one who *merely does what he is authorized to do by statute* is not guilty of misuse of the patent." H.R. Rep. No. 1923, at 9; S. Rep. No. 1979, at 8 (emphasis supplied).[16]

In sum, a proper reading of section 271 and its legislative history demonstrates that Congress intended to authorize Rohm and Haas' conduct in this case.

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[16] The cursory debate on the floor of the Senate, on which Petitioners (Br., pp. 19-20) and the Government (Br., p. 17) place principal reliance, should not outweigh the considered and lengthy explanation of the legislation's purpose by its principal author. *See, e.g., Ernst & Ernst* v. *Hochfelder*, 425 U.S. 185, 202-03 (1976); *United States* v. *Enmons*, 410 U.S. 396, 405 n.14 (1973); 2A D. Sands, *Sutherland Statutory Construction* 214 (4th ed. 1973). As the Court of Appeals properly recognized, 599 F.2d at 698, App. 165, only moments after telling Senator Saltonstall that the bill "codified" the patent laws, Senator McCarran inserted in the record a prepared statement that obviously refers to section 271:

> "In view of decisions of the Supreme Court and others as well as trial by practice and error *there have been some changes in the law of patents as it now exists. . . .*" 98 Cong. Rec. 9323 (1952) (emphasis added).

II. AFFIRMANCE IS APPROPRIATE BECAUSE THE ECONOMIC CONSEQUENCES OF APPLYING THE MISUSE DOCTRINE IN CASES OF THIS KIND WOULD BE SIGNIFICANTLY ADVERSE.

The conclusion that section 271(d) permits "use" patentees to collect royalties as Rohm and Haas has done is reinforced by the fact that foreclosing that option would have significant adverse consequences not only for patentees but for users and the economy generally. Unlike *Deepsouth Packing*,[17] therefore, the result reached below is supported by much more than "mere inference from ambiguous statutory language"; and "a clear and certain signal from Congress"—though we believe one has been given—is not required. For the same reason, patent misuse doctrine should not be applied even if section 271—which merely states what is *not* misuse—were thought to leave the question open. Thus the Government's contention (Br., p. 10 n. 11) that practical considerations favoring Rohm and Haas' method of exploiting its patent "conceivably could persuade Congress to change the legal principle governing this case" is wide of the mark. Such considerations can and should be taken into account in deciding whether the misuse doctrine should be applied.

As the briefs of the Government (Br., pp. 9-10) and the Petitioners (Br., pp. 34-35) recognize, the appropriateness of applying the misuse doctrine to this kind of case requires considering the effect on the pro-innovation policy of the patent law and on the policies served by the antitrust laws, which also seek to foster an innovative and efficient economy and are therefore largely complementary. Neither brief, however, closely examines whether the public interest reflected in those policies would in fact be served by finding misuse here. Neither

[17] *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518, 531 (1972).

brief adequately explores the practical economic consequences of preventing a holder of this kind of "use" patent from seeking to recover the value of his invention by granting licenses via the sale of a non-staple component, and thus remitting him to alternative methods of attempting to recover what the patent law entitles him to.

A careful examination of those alternatives and their consequences show a clear balance in favor of permitting Rohm and Haas to do what it has done. As compared to its alternatives, that method has obvious and substantial advantages in the form of lower costs to patentees and to users of the patented process—a result that serves rather than disserves the purposes of the antitrust laws. And in so enhancing the ability of "use" patentees to recover the value of their economic contributions, permitting that method strengthens the incentives to "use" innovations—the goal of the patent laws. In contrast, the "anticompetitive" effects, if any, are minimal.

A. Compared to Alternatives, Rohm and Haas' Method of Exploiting its Patent Has Significant Economic Advantages.

The economic gains in the method of exploiting a patent chosen by Rohm and Haas become clear when the method is compared to the other options realistically available to the holder of a "use" patent of the kind involved here. We take it as given that a patentee is normally entitled to recover the full economic value of his patent, as determined in the market place. Further, the mere fact that a method of licensing facilitates the patentee's ability to recover that reward is not a basis for condemnation. It is true, of course, that a patent licensing arrangement is not automatically vindicated simply because it assists a patentee in recovering his full reward. That consideration remains highly relevant, however. Before a particular arrangement is con-

demned, it must be asked whether alternative methods would in fact be economically preferable. That is not the case here.

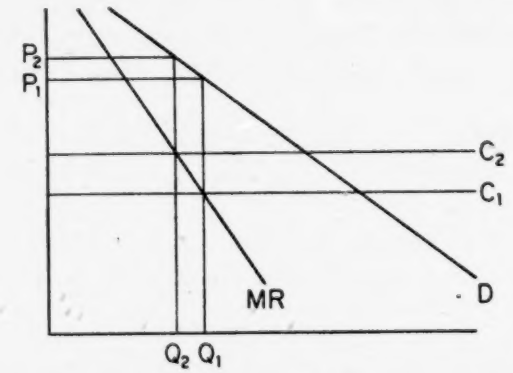
1. *Granting a license to users with purchase of an unpatented component from the patentees (as done in this case).* Of the alternative methods of attempting to obtain what a patent is worth, this method is plainly the most efficient. A reward to the invention proportional to use is automatically collected from the user with the sale of the component. There are no transactions costs imposed on either side. The user does not have to keep records of use or make periodic royalty payments. The patentee incurs no cost in auditing users to determine whether they have paid what is due. Users, patentees, and the courts are relieved of the burdens of royalty litigation. Moreover, the patentee can readily vary the royalty rate to reflect any increased value of the patent simply by raising the component price. No other option is as efficient—for patentees, for users, or for society generally—as we shall now show; because they all yield rewards lower than the economic value of the patented invention, none would provide as great an incentive to discover new and useful processes, as the Government concedes (Br., p. 10 n.11).

2. *Self-exploitation.* A process patentee, like any patentee, is clearly entitled to keep practice of the patent to himself. Unlike the case of a product patent or a manufacturing process patent, however, self-practice of a "use" patent like that involved here—requiring "on site" application at a multitude of locations—is not likely to be feasible or efficient. And even if it were, the competitive consequences would be worse than with the alternative followed by Rohm and Haas. Self-exploitation would not only create the same "monopoly" in a single non-staple component that the challenged practice creates, but would also "monopolize" or "tend to monop-

olize" any other components and the business of practicing the process as well.

3. *Licensing users without production and sale of components.* If this alternative were utilized, both the patentee and the users would incur substantial transactions costs of the kind we have just described. These additional costs would lead to a higher effective royalty price to users and lower utilization of the patented process—a clear social loss; with higher costs and more restricted use, net royalty revenues to the patentee would be less than would otherwise be the case.[18] Indeed, the costs to the patentee of insuring the collection of royalties due from hundreds or thousands of users, and of suing those who have not properly paid, may be so disproportionately high as to render this alternative wholly infeasible—the same reason that led courts to recognize,

[18] These points can be illustrated by the following simple diagram:



C_1 is the cost of producing and selling the component with an implied license to practice the patent; C_2 the higher cost of the component plus the transactions costs of separate direct licenses. D is the demand curve for components plus the right to use the process; and MR is the marginal revenue curve, indicating the increased *net* revenue from expanded sales. At the lower cost (C_1) the patentee would maximize profits at an aggregate price of P_1 and sales of Q_1. At the higher cost (C_2) he would maximize at a higher price (P_2) and lower sales (Q_2). Not only would users suffer, but the patentee's net profits—shown by the P_2 rectangle above C_2—would be lower than at the lower C_1 cost.

and Congress to codify, a cause of action for contributory infringement.[19]

4. *Options to users to purchase an express license alone or an implied license with the purchase of a non-staple component.* Although Petitioners seek a license from Rohm and Haas, they agree that licenses to competing component producers are not necessary to avoid a charge of misuse (Br., pp. 30-31). A process patentee is clearly entitled to offer would-be users two alternatives: a license at a specified royalty, or an implied license with the purchase of a non-staple component from the patentee at a specified price. In so doing, the patentee is entitled to specify a lower price for the "package" than for a license and the component purchased separately, where the reduction simply reflects the lower transactions costs of collecting the royalty through the sale of the component.[20] Moreover, the effective cost of the license alone would be higher if the royalty rates were the same, because of the subsequent transactions costs to the user—record keeping, making payments, and litigation disputes over

[19] *See, e.g., Westinghouse Electric & Manufacturing Co.* v. *Precise Manufacturing Corp.*, 11 F.2d 209 (2d Cir. 1926); *1951 Hearings* 160.

[20] Neither Clayton Act § 3, 15 U.S.C. § 14, nor Sherman Act § 1, 15 U.S.C. § 1, could reasonably be interpreted to prohibit such a cost-justified lower price for the package. It is accepted that "where the buyer is free to take either product by itself there is no tying problem even though the seller may also offer the two items as a unit at a single price." *Northern Pacific Ry.* v. *United States*, 356 U.S. 1, 6 n.4 (1958). Courts have found violations of the antitrust laws where, because of rebates or other pricing arrangements, the purchaser, as a practical matter, will always take the package. *See, e.g., SmithKline Corp.* v. *Eli Lilly & Co.*, 575 F.2d 1056 (3d Cir.), *cert. denied*, 439 U.S. 838 (1978); *Advance Business Systems & Supply Co.* v. *SCM Corp.*, 415 F.2d 55 (4th Cir. 1969), *cert. denied*, 397 U.S. 920 (1970). However, nothing in these cases suggests that cost-justified differential pricing of the separate components and the package would be a violation of the antitrust laws. To rule otherwise would be to deprive customers of the resulting efficiencies.

amounts due. Accordingly, users would obviously elect to buy the "package" unless competing component producers charged a component price sufficiently lower than the patentee's to offset the higher effective royalty on the direct license alone. Absent that circumstance, this alternative would produce the same result as "package" selling only. It is, of course, possible that competing component producers would be so much more efficient that they could "undersell" the patentee. But this is unlikely, given the relatively high transactions costs to the patentee and to users under direct licenses.[21]

In any event, this alternative would be a fertile source of expensive and involved litigation by competing component producers claiming that the patentee's lower "package" price was not cost justified.[22] And, as experience under the Robinson-Patman Act, 15 U.S.C. § 13, has shown, that issue can be a morass.[23] The problems are particularly severe in dealing with transactions costs of the kind we have described, which typically can be only roughly estimated.

5. *Licensing competing component producers with the right to sublicense use of the patent.* While this alternative was described by the court below as an "attractive" possibility, 599 F.2d at 702 n.27, App. 177 n.27, it is not as attractive as it may look. It would in-

[21] Moreover as we note below, p. 24 *infra*, the patentee in that event would find it more profitable to cease production of the component, and license competitors to sell their product to users with an implied license to practice the patent.

[22] Competitors would also be likely to claim that either the express royalty is excessively high, or the patentee is selling the component "below cost." The latter claim would raise the difficulties described at pp. 20-21 *infra*.

[23] "Proof of a cost justification being what it is, too often no one can ascertain whether a price is cost justified." *Automatic Canteen Co.* v. *FTC*, 346 U.S. 61, 79 (1953).

deed involve lower transactions costs than direct licenses to a multitude of users, although of course there would be at least some such costs that are not incurred by the method Rohm and Haas uses here. There are, however, other significant disadvantages.

First, the patentee, as a practical matter, would rarely be able to obtain royalties comparable to the value of the invention. To avoid a charge of misuse, the patentee would have to grant licenses and set the royalty rate before beginning to sell the component, when commonly the prospective value of the invention is uncertain and potential licensees will insist on a conservative figure that is likely to be below true value.[24] Moreover, the patentee runs the risk that should he in good faith insist on a higher figure than licensees would accept, he would be faced in any infringement suit against them with a charge of patent misuse for "in effect" having refused to license others and thus "monopolized" the component.

Second, particularly in the case of a non-staple component for which there is no independent market price, it would be extraordinarily difficult to determine whether or not the royalty rate was "unreasonably high," either at the time of license negotiation or at some later time, when licensees claim that they cannot pay the royalty and still profitably sell at the package price charged by the patentee. The claim would be that if a "reasonable price" for the component were deducted from the patentee's package price, the resulting imputed royalty rate would be below the express rate offered competing component producers—*i.e.*, that the competitors were being discriminated against. That claim of discriminatory royalty rates would force the courts to determine the

[24] Even if the original royalty were to approximate the value of the invention, the patentee as a practical matter would be unable to change the rate later should the market value of the invention increase. Licensees will rarely if ever accept a license giving the licensor the right to revise the royalty rate upward.

patentee's "costs" of producing the component.[25] As in cases charging "predatory pricing," resolving that issue would by no means be simple,[26] particularly where there are joint costs in the production of the component and similiar items.[27]

Third, and finally, this alternative would raise another difficult question for both patentees and for courts—how many competing producers must a patentee license in order to avoid a charge of misuse?[28] Almost by defini-

[25] This problem was detected by Judge Magruder, concurring in *B. B. Chemical Co.* v. *Ellis*, 117 F.2d 829, 839 (1st Cir. 1941), *aff'd*, 314 U.S. 495 (1942). "If it were sought to extend the doctrine of *Leiich* [*Manufacturing Co.* v. *Barber Co.*, 302 U.S. 458 (1938) and *Carbice Corp.* v. *American Patent Development Corp.*, 283 U.S. 27 (1931),] to cover such a situation, many difficulties would at once be presented, not the least of which would be the elusive problems of cost accounting."

[26] While differing in their assessment of the difficulties, protagonists of various tests for "predatory pricing" are agreed on this point. See, *e.g.*, Williamson, *Predatory Pricing: A Strategic and Welfare Analysis*, 87 Yale L.J. 284, 305 (1977); Areeda & Turner, *Williamson on Predatory Pricing*, 87 Yale L.J. 1337, 1346, 1351-52 (1978).

[27] The problem described in text would be moderated, though not eliminated, where the component is a staple commodity, and the patentee sells the component separately for other uses. *Cf. Ansul Co.* v. *Uniroyal, Inc.*, 306 F. Supp. 541, 562-63 (S.D.N.Y. 1969), *aff'd in part*, 448 F.2d 872 (2d Cir. 1971), *cert. denied*, 404 U.S. 1018 (1972). Then, at least, the implicit royalty charged by the patentee could be readily determined by subtracting his price of the component alone from the price for the component with an implied license, and if that figure were substantially less than the rate charged competing component producers, illicit "exclusion" would be at least presumptively established. (On the other hand, cost analysis would be required where it appeared that the patentee may simply have made a few low-priced sales of the component in an effort to establish that his implied license royalty was the same as the direct license royalty.) The staple case is academic under current misuse and contributory infringement doctrines, however, as competing producers of a staple cannot be sued for contributory infringement and hence have no reason to seek a license. *See* 35 U.S.C. § 271(c).

[28] As the Government notes (Br., p. 5 n.7), the District Court reserved for later proceedings the number of license offers to other propanil producers necessary to dissipate the misuse.

commodity that has had no known use. The patentee may be the only party willing to invest in production facilities at the outset, or no potential independent producer may be willing to make the investment unless granted exclusive production rights.[29] Yet a requirement that the patentee license all additional comers, or even any more comers, may create wasteful excess capacity or inefficient production scale and destroy the investment of the party or parties who took the initial risks. At best, a sensible rule that took all those factors into account would leave considerable undertainty and promote litigation involving very complex questions of fact.

* * * *

In sum, denying process patentees like Rohm and Haas the right to collect royalties in the way that Rohm and Haas does would force them to employ options considerably more costly and burdensome to them, to those who wish to use the patented process, and to the economy in general.[30] And given the infeasibility of a patentee reserving to himself the business of practicing process patents of this kind, denying this option would be likely to reduce significantly the incentives to invent uses for compounds having no known use.

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[29] An exclusive license with the right to sublicense use of the patent would be at best indistinguishable from the case in which the patentee reserves that right to himself. Indeed, it would be worse unless the patentee could impose a maximum price. Otherwise, the exclusive licensee would price to obtain monopoly profits on the component; the price to users would be higher than if the patentee were selling the package; and both the patentee and users would suffer. *Cf.* P. Areeda, *Antitrust Analysis* 500 n.4 (1974).

[30] Compare this Court's response to the claim that promotional activities encouraged by vertical restrictions on dealers decrease interbrand competition by enhancing product differentiation: "Nor is it clear that a *per se* rule would result in anything more than a shift to less efficient methods of obtaining the same promotional effect." *Continental T.V., Inc.* v. *GTE Sylvania Inc.*, 433 U.S. 36, 56 n.25 (1977).

B. The Potential Adverse Effects of the Practice are Minimal.

While there may be circumstances in which strong countervailing considerations require that the costs discussed above must be accepted, there are no such countervailing effects here. Indeed, the Government Brief cites only one possible adverse effect from a patentee reserving component sales to itself, namely less efficient production of that component. As we shall shortly explain, that danger is minimal.

No other adverse effect can reasonably be claimed. Unlike price-fixing clauses or similar restrictions in patent licenses to horizontal competitors, which may well enable a patentee to reap monopoly profits unrelated to his patent,[31] Rohm and Haas' system of reserving component sales to itself does not allow it to recover more than the value of its invention, or obtain a "second monopoly profit" on the sale of the component.[32]

For a method patent whose practice requires an unpatented component, the value of the invention is measured by the difference between the cost of the component alone and the profit-maximizing price that buyers will pay for both the component and the right to use it in the patented method at a given volume. There is only a single "monopoly profit" that can be obtained from the joint sale of the component and the right to use the patented method; for any given level of demand, that profit is maximized at a particular aggregate price for the two. Whether the patentee-manufacturer can feasibly recover the value of the patent by direct licensing

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[31] *See, e.g.*, Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 Yale L.J. 267, 335-337 (1966).

[32] *See* W. Bowman, *Patent and Antitrust Law: A Legal and Economic Appraisal* 54-55 (1973).

or, as here, by component sales with licenses, it cannot obtain additional profits by excluding others from manufacturing the component. If, for example, the patentee were to raise the price of the component above a competitive level, net profits would be reduced unless the patentee also lowered the price for using the patent method by a corresponding amount.[33]

It is possible, as the Government (Br., pp. 10-11) points out, that exclusivity in the production of a non-staple component may, for its duration, lower the likelihood that more efficient methods of producing that component will be developed. But this effect, if any, is likely to be insubstantial. First, the patentee, like any other producer, has a strong incentive to cut production costs, because lower costs will increase his profits from the licensing of the patented process.[34] Second, for the same reason, the patentee has an incentive to utilize any more efficient methods of production developed by others, or to cease his own production and buy the component from others who could produce more cheaply. Third, for these reasons, a substantial adverse effect is particularly un-

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[33] Assume, for example, that users are willing to pay $1 per unit of propanil to practice the Wilson method at a volume of use which maximizes net aggregate revenues for the manufacturer-patentee. Assume further that the cost of producing propanil in this volume (including reasonable return on investment) is $.60 per unit. Since $.60 would thus be the competitive price of propanil, users would be willing to pay a royalty of $.40 to use the method—the value of the invention. In these circumstances, Rohm and Haas cannot sell its propanil for more than $.60 without reducing its royalty below $.40, the fair value of the invention. *Cf.* R. Posner, *Antitrust Law* 173 (1976).

[34] In the hypothetical example in note 33 *supra*, if demand is at all elastic, the profit maximizing price will drop below $1.00 and the volume of sales will increase. If the new cost of propanil were $.50 and new profit maximizing price were $.95 the patentee would be able to increase his royalty to $.45, or, even if such increase were not feasible, to enjoy a greater return on the additional sales at the new lower price.

likely where the non-staple component is a simple part or chemical mix that the patentee produces interchangeably with similar products in which he faces competition. In such cases, competitive pressures to produce those other products efficiently will affect production of the non-staple as well. Finally, it is unlikely that a non-staple will remain a non-staple for long. New uses are likely to be developed by other users or by would-be producers who would then be free to produce, without threat of contributory infringement, once a new use is found.[35]

In short, the sole possible benefit from holding Rohm and Haas' practice to be patent misuse is greatly outweighed—from both patent *and* antitrust law perspectives—by the substantial economic costs of depriving use patentees of that option. Thus affirmance is appropriate whether or not dictated by section 271 of the Patent Code.

C. Affirmance Here Need Not Be Deterred by the Implications of Such a Holding for Patent Misuse and Antitrust Rules in Other Cases.

The question may be raised whether affirmance of the decision below may not imply broader revision of the patent misuse doctrine and of antitrust rules dealing with "tying" arrangements. It need not. If affirmance is rested solely on the ground that Congress in enacting sections 271(c) and (d) intended to preclude a finding of misuse when a patentee grants licenses only in connection with the sale of a non-staple component, all such issues would be left to another day.

However, we would be less than candid if we did not agree that much of the above analysis is relevant as well to the sale of a staple component with an implied license.

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[35] Indeed, the Government concedes as much (Br., p. 10 n.11).

Similarly, since patent misuse and antitrust doctrines in this area are closely allied, the analysis as applied to patent misuse also bears on the proper antitrust treatment of such arrangements. And indeed, there is much to be said for the proposition that a reevaluation of patent misuse and antitrust doctrines in this area is in order.

This Court has never reconsidered—as it did in *GTE Sylvania*[36] with respect to vertical restrictions on dealers—whether the necessary economic predicates for *per se* or virtual *per se* rules are indeed present with respect to tying arrangements. Yet much as in *GTE Sylvania*, economic analysis (as our discussion in Part II A, *supra*, illustrates) has simply refuted the root assumption—uncritically cited by Petitioners here (Br., pp. 31-32)—that "[t]ying agreements serve hardly any purpose beyond the suppression of competition."[37]

Reexamination seems particularly appropriate for the patent misuse doctrine, which from its inception and as extended is a strict *per se* rule. With the *Mercoid* cases, "tying" a license of a combination or process patent to the sale of a component—staple or non-staple—constituted misuse without more. In contrast to the inquiries typical of a *GTE Sylvania* rule of reason approach, misuse cases treat as irrelevant the purpose or effect of the practice, and the consequences of alternative methods of patent exploitation.[38] Given the analysis set forth above, it does seem appropriate that the *per se* patent misuse doctrine be reconsidered even with respect to staple commodities.

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[36] *Continental T.V., Inc.* v. *GTE Sylvania, Inc.*, 433 U.S. 36 (1977).

[37] *United States* v. *Loew's, Inc.*, 371 U.S. 38, 44 (1962), *citing Standard Oil Co.* v. *United States*, 337 U.S. 293, 305-06 (1949).

[38] *See, e.g., B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495, 498 (1942).

Nor is there anything to preclude the Court from reevaluating its position on patent misuse as applied to staples or non-staples. Patent misuse is a judicially created doctrine that can be judicially revised. Whatever else it means, section 271(d) of the Patent Code merely states what is *not* patent misuse, not what is. It is thus no bar to judicial contraction of that doctrine.[39]

Moreover, a finding of no misuse on the present facts would not necessarily determine the question of whether limiting licenses to purchasers of a staple component should or should not be patent misuse. Exclusive sales of staples may differ, in terms of economic consequences, from exclusive sales of non-staples. For example, there may well be less need for incentives to find new uses for staples than to find uses for products having no known use. Producers of staple commodities have strong incentives to find new uses for their products; and new uses for a product already produced and widely sold are likely to be developed by outside potential users experimenting in the normal course.

Finally, while the above analysis suggests that the prevailing antitrust law on tying arrangements is unduly harsh, those rules are not strict *per se* rules and the kinds of considerations recognized in such cases as

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[39] Nor does section 271(c), in foreclosing contributory infringement actions against producers of staple commodities, stand in the way of revising that aspect of patent misuse law. Prohibiting suit for contributory infringement against producers of staple commodities is justified, independently of misuse considerations, as a means of relieving such producers from the burdensome obligation of determining the use to which their customers will put the product. *See 1951 Hearings* 159-61. Limiting patent misuse thus would not restore contributory infringement rights against producers of staple products. A patentee would, of course, continue to have a right of action for active inducement of infringement, even against producers of staples. 35 U.S.C. § 271(b).

Jerrold Electronics[40] can be expanded or not when antitrust claims raising them later appear.

CONCLUSION

For the reasons set forth above, the judgment of the Court of Appeals should be affirmed.

Respectfully submitted,

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March 21, 1980

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[40] *United States* v. *Jerrold Electronics Corp.*, 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961). *See also FTC* v. *Sinclair Refining Co.*, 261 U.S. 463 (1923); *Dehydrating Process Co.* v. *A. O. Smith Corp.*, 292 F.2d 653 (1st Cir.), *cert. denied*, 368 U.S. 931 (1961).

MOTION FILED
MAR 21 1980

No. 79-669

IN THE
Supreme Court of the United States
OCTOBER TERM, 1979

DAWSON CHEMICAL COMPANY, ET AL.,
Petitioners,
v.
ROHM AND HAAS COMPANY

On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

MOTION FOR LEAVE TO FILE BRIEF AND BRIEF FOR PHARMACEUTICAL MANUFACTURERS ASSOCIATION AS AMICUS CURIAE

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MOTION OF PHARMACEUTICAL MANUFACTURERS ASSOCIATION FOR LEAVE TO FILE BRIEF AS AMICUS CURIAE

The Pharmaceutical Manufacturers Association (PMA) hereby moves, pursuant to Rule 42 of the Rules of this Court, for leave to file the attached brief as *amicus curiae*, urging affirmance. Respondent has consented to the filing of this brief; petitioners have withheld their consent.

PMA is a voluntary nonprofit association of 143 companies engaged in the discovery, development, manufacture and marketing of prescription drugs, medical devices and diagnostic products. PMA believes that the ex-

clusive rights conferred by the patent system provide an important incentive to the discovery and development of new therapeutic drugs and has, on behalf of its members, traditionally advocated the maintenance of those rights.[1]

This case poses a question of importance to all companies extensively involved in the research and development of new beneficial uses for previously discovered but unused chemical compounds. Specifically, this case will require the Court to decide whether the discoverer of such a new use must, unlike all other patentees, offer licenses to would-be competitors before it may enforce its patent rights against contributory infringement.

The answer to this question will be of special significance in the pharmaceutical industry, on behalf of which PMA consistently has opposed compulsory licensing of drug patents. Moreover, PMA members hold a number of method-of-use patents on therapeutic uses for unpatented, nonstaple compounds, and are actively engaged in screening such compounds for possible new therapeutic uses. The development of such drugs is plainly in the public interest, no less than the synthesis of new compounds. Yet there is widespread concern that new use research will not remain economically viable if the district court's decision, which cast doubt upon the enforceability of use patents for nonstaple compounds, is reinstated as petitioners urge.

Due to increasingly stringent regulatory requirements for pre-market testing and development, the average cost

[1] PMA has in the past filed briefs as *amicus curiae* in cases in this Court involving important patent and drug regulatory law issues. *Diamond* v. *Chakrabarty*, No. 79-136 (Oct. Term 1979), pending; *Weinberger* v. *Hynson, Westcott & Dunning, Inc.*, 412 U.S. 609 (1973) and companion cases.

of developing a single new drug today is approximately $74 million.[2] Because of the considerable investment involved in deciding to develop a new drug, PMA members are particularly sensitive to changes in the patent law that may reduce the potential return and hence the incentive for pharmaceutical development. Pharmaceutical firms cannot afford to risk investing such enormous sums in the investigation of new therapeutic uses for known but unused compounds if legal barriers are erected against achieving a rate of return equal to that obtainable from the synthesis of new, patentable compounds. Consequently, if this Court requires compulsory licensing of new use discoveries as petitioners and the United States urge in this case, many previously unused compounds with promising but untested therapeutic value are likely to remain undeveloped.

The briefs and arguments of the parties will necessarily and properly focus on the particular facts and issues presented by this case. PMA's brief, on the other hand, focuses on three broader issues of law and public policy: (1) the basic and overriding intent of Congress in enacting section 271 of the Patent Act, 35 U.S.C. § 271, to encourage research and development of new uses for previously known but unused compounds, (2) the role of compulsory licensing in Congress' overall patent policy, and (3) the practical consequences of reversal on pharmaceutical innovation. These issues war-

[2] *See* Hansen, *The Pharmaceutical Development Process: Estimates of Development Costs and Times and the Effects of Proposed Regulatory Changes*, in ISSUES IN PHARMACEUTICAL ECONOMICS 151, 180 (R. Chien ed. 1979). Hansen calculated this cost as $54 million in 1976 dollars. The $74 million figure is the same estimate in current dollars.

rant consideration by the Court in its resolution of the instant case.

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BRIEF FOR THE PHARMACEUTICAL MANUFACTURERS ASSOCIATION AS AMICUS CURIAE

INTEREST OF AMICUS CURIAE

The Pharmaceutical Manufacturers Association (PMA) is a voluntary nonprofit association of 143 companies engaged in the discovery, development, manufacture and marketing of prescription drugs, medical devices and diagnostic products. PMA believes that the exclusive rights conferred by the patent system provide an important incentive to the discovery and development of new therapeutic drugs and has, on behalf of its members, traditionally advocated the maintenance of those rights.

This case presents a question of particular importance to the pharmaceutical industry. Specifically, this case will require the Court to decide whether the discoverer of a beneficial use for a compound with no prior commercial value must, unlike all other patentees, offer licenses to its competitors before it may enforce its patent rights against contributory infringement.

The answer to this question will materially influence the future viability of research in the phramaceutical industry aimed at developing therapeutic applications of previously undeveloped compounds. If this Court requires compulsory licensing of new use discoveries, as petitioners and the United States urge in this case, many previously unused compounds with promising but untested therapeutic value are likely to remain unused.

INTRODUCTION AND SUMMARY OF ARGUMENT

This case involves the construction of a statute aimed at reconciling two important principles of patent and antitrust law that, in the context of this case, appear to collide. The law of patents has long recognized that it is impossible, as a practical matter, for a manufacturer who owns a patent for a method of use or for a combination of unpatented components to police direct infringement by a multitude of individual consumers who purchase the necessary components from another manufacturer and practice the method or assemble the combination themselves. *See, e.g., Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 511-12 (1964). In response to this problem, this Court developed the doctrine of contributory infringement, which permits the patentee to sue a competing manufacturer who sells an unpatented component knowing it will be used in an infringing manner. *See Henry* v. *A.B. Dick Co.*, 224 U.S. 1 (1912); *Leeds & Catlin Co.* v. *Victor Talking Machine Co.*, 213 U.S. 301 (1909). Coming from the

opposite direction, however, and drawn from the policy underlying the antitrust laws is the doctrine first announced by this Court in *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27 (1931), that "the owner of a patent may not employ it to secure a limited monopoly of an unpatented material used in applying the invention." *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661, 664 (1944).

In *Mercoid*, this Court appeared to resolve that conflict in favor of the antitrust principle of "misuse" articulated in the *Carbice* case. Writing for the Court, Mr. Justice Douglas stated broadly that in any conflict between the two principles—the one based upon the Patent Clause ("To promote the Progress of Science and useful Arts, by securing for limited times to . . . Inventors the exclusive Right to their . . . Discoveries," U.S. CONST., art. I, § 8) and the other extracted from the unexpressed premises of the Sherman Act—the antitrust prohibition against misuse must prevail. *Id.* at 669. In the years 1948 to 1952, however, Congress reviewed and revised the simplistic preference given to antitrust in *Mercoid*. Striking a middle ground, Congress plainly declared in section 271 of the Patent Act of 1952, 35 U.S.C. § 271, that in those cases where the unpatented article is not a staple, the doctrine of contributory infringement shall prevail over any claim of misuse arising from a patentee's suit to enforce its rights against contributory infringers.

Congress arrived at this compromise in two steps. First, section 271(c) limits the doctrine of contributory infringement to the unauthorized sale of a nonstaple "article or commodity of commerce [un]suitable for substantial noninfringing use." No one disputes that the petitioners' sale of propanil, a nonstaple "[un]suitable for substantial noninfringing use," constitutes contributory infringement as defined by section 271(c). Second,

section 271(d) provides that a court shall not find that a method-of-use patentee has misused its patent because it has (1) sold an unpatented article for use in the patented method, (2) licensed its method of use, (3) sued others for contributory infringement, or done any combination of these things.

Rohm and Haas has done precisely what section 271(d) permits: sold propanil and sued unlicensed manufacturers of propanil for contributory infringement. Although it has not expressly licensed anyone to practice the method, its buyers are authorized to practice the method by operation of law. Petitioners nonetheless contend that section 271(d) does not expressly permit Rohm and Haas to refuse to license competing manufacturers. But the exclusive right of patentees to practice their inventions, and hence to license or refuse to license others, selectively or across the board, is the very essence of the patent right. There is nothing in section 271 that expresses an intent by Congress to deny that fundamental right to method-of-use patentees. To the contrary, the legislative history and background of the 1952 Patent Act show that Congress deliberately tipped the scales away from *Mercoid*, with its antitrust tilt, and reestablished the doctrine of contributory infringement as to nonstaples. To hold otherwise would be to depart from the balance struck by Congress in the 1952 Patent Act. To side with petitioners' antitrust views would amount to judicially imposed compulsory licensing. Congress' long-standing patent policy, however, strongly disfavors compulsory licensing of patents.

ARGUMENT

I. CONGRESS INTENDED SECTION 271 TO RESTORE THE STIMULUS REMOVED BY *MERCOID* TO INVESTIGATE AND DISCOVER NEW USES FOR NONSTAPLE COMPOUNDS.

The essence of this case is that section 271 of the Patent Act of 1952 is not an antitrust statute but a patent statute designed to remove from the patent laws what was perceived to be an inappropriate antitrust gloss placed on the patent law doctrine of contributory infringement by Mr. Justice Douglas' opinion in *Mercoid*. The purpose of section 271 was clear from its inception. The Patent Law and Practice Committee of the New York Patent Law Association, chaired by Giles S. Rich (now Associate Judge of the United States Court of Customs and Patent Appeals), convened in 1946 to prepare a bill to erase the damage done by *Mercoid* by codifying the doctrine of contributory infringement as it had been understood and applied for almost a half-century prior to that case.

The Committee drafted the bill over the next two years and Judge Rich testified as its sponsor at hearings before the House Subcommittee on Patents, Trademarks, and Copyrights in May 1948.[1] At the outset of these

[1] The contributory infringement provisions of the original bill, H.R. 5988, read as follows:

> Sec. 3. The sale of a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, if especially made or adapted for use in infringement of such patent, and not suitable for actual commercial noninfringing use, shall constitute contributory infringement.
>
> Sec. 4. The mere sale of any staple article or commodity of commerce not especially made or adapted for use in a patented invention, and suitable for actual commercial noninfringing use, shall not of itself constitute contributory infringement,

hearings, Judge Rich, whose testimony this Court has recognized as the chief authority in interpreting section 271,[2] submitted a statement on behalf of the New York Patent Law Association describing the bill and its pur-

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even though sold with the knowledge or expectation that it will be used in infringement of the patent.

Sec. 5. No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent monopoly because he has done one or more of the following: (a) Derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (b) licensed or authorized one or more persons to perform acts which if performed without his consent would constitute contributory infringement of the patent; (c) sought to enforce his patent rights against infringement or contributory infringement.

Contributory Infringement in Patents—Definition of Invention: Hearings on H.R. 5988, H.R. 4061, and H.R. 5248 Before Subcomm. on Patents, Trademarks, and Copyrights of the House Comm. on the Judiciary, 80th Cong., 2d Sess. 1 (1948) [hereinafter cited as *1948 Hearings*]. As Judge Rich testified in subsequent hearings, sections 3 and 4 of the original bill were combined to form what is now section 271(c). Section 5 became section 271(d) with only minor changes in language: "patent monopoly" to "patent right" and "because he has done" to "by reason of his having done." *See Patent Law Codification and Revision: Hearings on H.R. 3760 Before Subcomm. No. 3 of the House Comm. on the Judiciary*, 82d Cong., 1st Sess. 151-52 (1951) [hereinafter cited as *1951 Hearings*]. The 1948 bill was reintroduced without change in the next Congress as H.R. 3866, and appears in *Contributory Infringement: Hearings on H.R. 3866 Before Subcomm. No. 4 of the House Comm. on the Judiciary*, 81st Cong., 1st Sess. 1 (1949) [hereinafter cited as *1949 Hearings*].

[2] *See Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 486 n.6, 511 (1964); *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 347 n.1, 348 n.3, 349 n.4, 365 n.9, 366-67, 378-79 n.7 (1961). The subcommittee that held hearings in 1951 and the Congress that enacted the 1952 Patent Act were plainly aware of Judge Rich's testimony on contributory infringement at the 1948 and 1949 hearings. *See 1951 Hearings* 151-52. And this Court has considered the purpose of the 1948 and 1949 bills in interpreting section 271 as finally codified. *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. at 511.

pose.[3] "The purpose of the bill," wrote Judge Rich, "is to restore the stimulus of the patent system to large and important fields of inventive effort which have, in practical effect, been placed outside the patent law by recent decisions of the Supreme Court abolishing effective protection against contributory infringement." *1948 Hearings* 3.

Judge Rich cited two major types of invention that had been discouraged by this Court's decisions, "[d]iscovery of new uses" and "combination patents." He expressed particular concern that the decision in *Mercoid* had withdrawn the stimulus for the discovery of new uses. "In chemical research," Judge Rich indicated, "a new and commercially important result is not infrequently obtained by the use of chemical compounds which have previously existed but have not been put to any practical use." *Id.* at 5. Indeed, Judge Rich concluded that it was "probable" that a chemist searching for a compound to solve a scientific problem would "find somewhere in the chemical literature a description of the compound which he has found necessary for this purpose." *Id.*

In that circumstance, the chemist could not obtain a composition patent for the chemical and would have to rely instead on a process or method patent for protection. But, as Judge Rich testified, such patents were not enforceable, for *Mercoid* precluded a suit for contributory infringement and "[a]s a practical matter, no patentee [could] afford to attempt to protect . . . his invention by suing all the innocent members of the public who have been induced to use it." *Id.* Thus, Judge Rich concluded, "the stimulus of the patent system [was] withdrawn from this class of inventions"; section 271 was specifically designed to restore that incentive with respect

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[3] The portion of Judge Rich's statement concerning the discovery of new uses is reproduced in the Appendix at pp. 1a-3a *infra*.

to nonstaples while leaving *Mercoid* intact as to staples. *Id.* at 5-6.[4]

Judge Rich's sponsoring statement precisely foreshadows the facts of this case. Rohm and Haas has developed and patented a new use for the nonstaple propanil and seeks to do just what section 271(d), as conceived by its chief draftsman, would have it do, *i.e.*, sell propanil and sue unlicensed sellers for contributory infringement.[5] Without these rights, the stimulus for developing new uses is withdrawn. As Judge Rich emphasized in his testimony, the only practical way to enforce a patent for the use of a nonstaple chemical is to sue those who sell the chemical knowing that its buyers will use it in an infringing manner. *1948 Hearings* 5. That is precisely what sections 271(c) and (d) authorize the patentee to do.[6]

Despite the parties' stipulation (Pet. App. 38) that Rohm and Haas sells only propanil and that its purchasers are authorized to practice its patent not by express license but by operation of law,[7] the United States insists on treating Rohm and Haas as if it marketed two separate products and has conditioned the availability of one on the purchase of the other (U.S. Br. at 6-7). In essence, the Justice Department, as *amicus curiae*, asks this Court to ignore the stipulated facts and rewrite section 271 to preserve *Mercoid* as it urged unsuccessfully before Congress some 30 years ago. Congress rejected the Department's arguments then and the Court should not entertain them now.[8]

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[4] The petitioners have characterized Judge Rich's testimony as unclear. But under careful questioning by Congressman Willis in the 1949 Hearings, Judge Rich stated unambiguously that "[t]he exception which we wish to make to the misuse doctrine would reverse the result in the *Mercoid* case." *1949 Hearings* 67. Congressman Willis asked Judge Rich to repeat this statement, which he did. *1949 Hearings* 68. Mr. Willis then asked Judge Rich to explain the effect of the proposed bill on the misuse doctrine. At this point, Judge Rich proceeded by illustration to demonstrate that the bill would preserve the doctrine in cases like *Carbice* involving the sale of "staple commodities of commerce," but preclude its application in cases like *Leeds & Catlin Corp.* v. *Victor Talking Machine Co.*, 213 U.S. 301 (1909), involving nonstaples. At the conclusion of this testimony, Mr. Willis stated that Judge Rich had made himself "entirely clear." *1949 Hearings* 73.

Had the Committee not intended the result Judge Rich stated so precisely in the 1949 hearings, presumably it would have revised the misuse section of the bill to expressly preserve the misuse doctrine with respect to nonstaples when it redrafted the bill for consideration at the 1951 hearings. Its failure to revise the misuse provision, in the face of so clear a statement of its purpose by the chief draftsman, strongly implies the Committee's satisfaction with Judge Rich's construction. *See 1951 Hearings* 13.

[5] Rohm and Haas does not thereby remove propanil from the public domain, as the district court believed (Pet. App. 89) and petitioners contend (Pet. Br. at 33). Although technically not patentable as a composition of matter for lack of novelty, propanil was worthless before Rohm and Haas discovered its value as a herbicide. Whatever market now evists for propanil was created by Rohm and Haas' invention. Prior to that invention, others were free to discover new uses of the compound and market it for those uses. They remain free to do so.

[6] Indeed, as this Court recognized in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 511 (1964), the 1948 and 1949 bills were entitled "Bills To Provide For The Protection of Patent Rights Where Enforcement Against Direct Infringers Is Impracticable." H.R. 5988, 80th Cong., 2d Sess. (1948); H.R. 3866, 81st Cong., 1st Sess. (1949).

[7] *See Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964); *United States* v. *Univis Lens Co.*, 316 U.S. 241, 249 (1942); *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453, 456 (1873).

[8] Testifying on behalf of the Justice Department at the 1949 hearings, Mr. John C. Stedman objected to the language of section 271(d). "Its effect," Stedman stated, "is to permit a patentee to sell unpatented parts for a device or composition covered by his patent or sell unpatented materials or apparatus for use with a process patented by him, and at the same time prohibit his competitors from selling such unpatented materials in competition with him." *1949 Hearings* 52. *See 1951 Hearings* 97, 165, 168-69, 207. The subcommittee recalled Judge Rich to respond to Mr. Stedman's testimony. Judge Rich stated that he agreed with Mr. Stedman's interpretation of the misuse provision of the bill but that the

Following a slightly different approach, petitioners in effect urge, as the district court concluded,[9] that patentees should be required to offer licenses to competitors before they may sue to enjoin contributory infringement.[10] But Congress neither expressed nor implied any such condition.

II. SECTION 271 DOES NOT REQUIRE COMPULSORY LICENSING OF USE PATENTS.

Neither the language nor the legislative history of section 271 of the Patent Act makes patent licensing compulsory as a condition of suing contributory infringers. Nor is any such requirement implied. As the Fifth Circuit correctly noted, "A general licensing obligation is foreign to [the] statutory scheme" (Pet. App. 177 n.27).

The text of section 271 nowhere mentions a requirement to license. Section 271(c) sets forth the elements of contributory infringement and section 271(d) declares that certain acts, including enforcement of the patentee's rights against contributory infringement, shall not constitute misuse. Petitioners and the United States as *amicus curiae* nevertheless contend that sections 271(c) and (d) imply an antitrust-type obligation to offer licenses to competitors before the patentee can sue contributory infringers. Yet the plain language of the

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Justice Department ignored the fact that the misuse provision was limited to "contributory infringement as defined in the preceding parts of the bill," *i.e.*, to the sale of nonstaples. *1949 Hearings* 64-74; *see* note 4 *supra*.

[9] "The effect of this order compels the patent owner marketing unpatented, nonstaple components of his combination patent to first offer licenses to others marketing that component before it seeks equitable relief for contributory infringement" (Pet. App. 110 n.20).

[10] Ostensibly petitioners offer five alternatives for Rohm and Haas (Pet. Br. at 30-31). However, all but one of these alternatives—*i.e.*, licensing competitors—is impractical or impossible. *See* pp. 19-20 *infra*.

Patent Act belies this construction,[11] the legislative history mentions no such obligation, and Congress' long-standing patent policy cuts overwhelmingly against any notion of mandatory licensing.

The legislative hearings on contributory infringement clearly manifest that Congress intended discoverers of new uses to enjoy exclusive rights commensurate with those who synthesize new compounds or compositions of matter. *See 1948 Hearings* 4-5; *1949 Hearings* 67-73. Foremost among those rights is the exclusive right of patentees to reserve exclusive use of their inventions to themselves, and hence to refuse to license others. *See* 35 U.S.C. § 154; *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 432-33 (1945); *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405, 424, 429, 430 (1908). Congress never contemplated that the exclusive rights extended to those who discover new uses would be more limited in scope or subject to any obligations or exceptions not applicable to other patentees. In short, Congress in enacting section 271 expressed every intention of granting the owner of a method patent for using a nonstaple the same discretion to grant or withhold licenses as is available to any other patentee.

This construction is borne out by Congress' overall patent policy. As noted above, Congress has historically disfavored compulsory licensing of patents. Over the past century, it has consistently rejected numerous bills proposing a general obligation to license patents.[12] In

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[11] The Fifth Circuit found petitioners' argument "an attractive possibility," but concluded it could "not discern it in the statute" (Pet. App. 177 n.27). *See* 35 U.S.C. § 154.

[12] *See Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 417 & n.18 (1945) (citing S. 300, 45th Cong., 1st Sess. (1877); H.R. 8776, 62d Cong., 1st Sess. (1911); S. 2116, 62d Cong., 1st Sess. (1911); H.R. 26185, 62d Cong., 2d Sess. (1912); S. 2303, 77th Cong., 2d Sess. (1942); S. 2730, 77th Cong., 2d Sess. (1942); H.R. 1371, 78th Cong., 1st Sess. (1943)); S. 814, 94th Cong.,

those rare instances where Congress has required compulsory licensing, it has done so in narrowly defined fields implicating unique public policies.[13] But it has refused to require licensing in the vast majority of fields. In 1962, for example, Congress rejected a proposal to make mandatory the licensing of drug patents.[14]

Petitioners cite *Besser Manufacturing Co.* v. *United States*, 343 U.S. 444 (1952), and *United States* v. *Glaxo Group Ltd.*, 410 U.S. 52 (1973), as examples of court-imposed compulsory licensing for "patent abuses." But *Besser* and *Glaxo* both involved agreements among several patentees to restrict patent licenses in violation of section 1 of the Sherman Act. Section 271 does not sanction such agreements, but it does authorize individual method patentees to sell nonstaples used in the patented method and sue unlicensed sellers for contributory infringement. This Court has never required an individual patentee like Rohm and Haas to license competitors

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1st Sess. (1975) (proposing general compulsory licensing to be administered by the Federal Trade Commission). *See generally* LEGISLATIVE REFERENCE SERVICE, COMPULSORY LICENSING OF PATENTS: A LEGISLATIVE HISTORY (Senate Patent Study No. 12, 1958).

[13] *See* Copyright Act, 17 U.S.C. §§ 101 *et seq.*; Air Pollution Prevention and Control Act, 42 U.S.C. §§ 1857 *et seq.*; Plant Variety Protection Act, 7 U.S.C. §§ 2321 *et seq.*

[14] In 1961, Senator Estes Kefauver sponsored amendments to the antitrust, patent, and drug laws which proposed, among other things, to cancel new drug patents after three years if the patentee refused to license all "qualified applicants" at a specific maximum royalty. S. 1552, 87th Cong., 2d Sess. § 3(d) (1962). After extensive testimony regarding the almost certain adverse impact of the compulsory licensing provisions on incentives for research and development, *see Drug Industry Antitrust Act: Hearings on S. 1552 Before the Subcomm. on Antitrust and Monopoly of the Senate Comm. on the Judiciary*, 87th Cong., 1st Sess. (1961), the Antitrust Subcommittee adopted several of the proposed drug amendments, but rejected a motion to approve the compulsory licensing provisions. *See* S. REP. NO. 1744, 87th Cong., 2d Sess., *reprinted in* [1962] U.S. CODE CONG. & AD. NEWS 2884, 2887.

merely because it has lawfully exercised its statutory patent rights, and it should not do so here.

Requiring method-of-use patentees to license competitors as a condition of enforcing their patent rights would take a devastating toll on medical and technological innovation in this country. We show below how this will occur in the area of pharmaceutical research, which today relies more than ever on the incentives of the patent system to justify the enormously expensive investigation of new therapeutic uses for previously ignored compounds.

III. THE FIFTH CIRCUIT'S HOLDING IS IMPORTANT FOR THE CONTINUED DISCOVERY OF NEW THERAPEUTIC DRUGS.

Because it is research intensive, the U.S. pharmaceutical industry relies heavily on the incentives of the patent system to research and develop new drugs. Despite the government's increased involvement in the investigation of new drugs, 91 percent of all new drugs are produced by private industry.[15] But the level of research and development in the industry is particularly sensitive to legal changes that affect the expected rate of return for pharmaceutical development. Primarily as a result of increased regulation, which has had the effect of increasing the costs of research and development and decreasing the effective patent life of new drugs, the rate of return in the industry has fallen in relation to that of other industries[16] and pharmaceutical innovation has slowed dramatically.[17] To withdraw the economic reward

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[15] D. SCHWARTZMAN, INNOVATION IN THE PHARMACEUTICAL INDUSTRY 162 (1976).

[16] *Id.* at 136-61. *See* H. GRABOWSKI, DRUG REGULATION AND INNOVATION 39-44 (1976).

[17] H. GRABOWSKI, *supra* note 16, at 9, 17-37; Baily, *Research and Development Costs and Returns: The U.S. Pharmaceutical Industry*, 81 J. POL. ECON. 70 (1973); Peltzman, *The Benefits and Costs of*

for investigating new uses of known but unused compounds—as petitioners' and the district court's construction of section 271 would do—must similarly be expected drastically to curtail such research.

The public interest in developing new agents for the treatment of disease is equally great whether these agents are derived from new or from known, but unused, compounds. But if this Court were to adopt the position of petitioners and the district court, the resulting diminution of research in the latter area would deprive the public of this important source of therapeutic advances.

A. The Incentives to Pharmaceutical Innovation Are Currently in Decline.

The Drug Amendments of 1962 required for the first time that manufacturers demonstrate, prior to marketing, the effectiveness of a new drug for its intended use [18] and authorized the Food and Drug Administration (FDA) to regulate the testing procedure for new drugs.[19] *See United States* v. *Rutherford*, 442 U.S. 544 (1979). A striking, if unintended, effect of the Amendments was a dramatic decline in the number of new drugs marketed each year. In the pre-amendment years 1950-61, an average of 56 new drugs were introduced each year, but the average annual rate dropped to 17 in the years 1962-75.[20] Although this decline is not exclusively at-

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New Drug Development, in REGULATING NEW DRUGS 113 (R. Landau ed. 1973) [hereinafter cited as *Benefits and Costs*]; Peltzman, *An Evaluation of Consumer Protection Legislation: The 1962 Drug Amendments*, 81 J. POL. ECON. 1049 (1973) [hereinafter cited as *Consumer Protection Legislation*].

[18] Pub. L. No. 87-781, §§ 102(b), 102(c), 21 U.S.C. §§ 355(b), 355(d).

[19] Pub. L. No. 87-781, § 106(b), 21 U.S.C. § 355(i).

[20] H. GRABOWSKI, *supra* note 16, at 18. *See also* Clymer, *The Changing Costs and Risks of Pharmaceutical Innovation*, in THE ECONOMICS OF DRUG INNOVATION (J. Cooper ed. 1969). Only a fraction—about ten percent—of the drop in new drugs can be attributed to the screening of ineffective drugs. *Benefits and Costs* at 161-70.

tributable to the elaborate administrative requirements established by the 1962 Drug Amendments, many studies agree that the Amendments have significantly retarded pharmaceutical innovation.[21]

This negative impact on new drug development can in large part be attributed to the increased risks and costs of research and testing and to the prolongation of the pre-marketing development period as a result of administrative regulation. Since the 1962 Amendments, only about one out of a thousand compounds isolated and tested for therapeutic value each year ultimately reaches the stage of clinical testing.[22] And among those that do reach clinical testing, only an average of 12 percent are ultimately approved by FDA for marketing.[23] When the costs of failure and foregone interest are taken into ac-

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[21] *See* H. GRABOWSKI, *supra* note 16, at 17-37; *Benefits and Costs* at 161-70; *Consumer Protection Legislation* at 1054-56. This conclusion is borne out by studies comparing U.S. drug innovation with innovation abroad. Although the annual rate of drugs introduced in the U.S. declined by 53 percent between 1961 and 1973, the rate of drugs introduced abroad declined by only 28 percent for the same period. H. GRABOWSKI, *supra* note 16, at 2. Similarly, a comparison of the rate of growth in pharmaceutical research and development in the U.S. and other developed countries in the period 1969-72 indicates that the rate of growth in other developed countries was more than double the U.S. rate. Clymer, *The Economic and Regulatory Climate: U.S. and Overseas Trends*, in DRUG DEVELOPMENT AND MARKETING 137 (R. Helms ed. 1975). *See generally* W. WARDELL & L. LASAGNA, REGULATION AND DRUG DEVELOPMENT (1975); Wardell, *Therapeutic Implications of the Drug Lag*, CLINICAL PHARMACEUTICAL AND THERAPEUTICS, Jan. 1974, at 73-96.

[22] *See* D. SCHWARTZMAN, *supra* note 15, at 60.

[23] Hansen, *The Pharmaceutical Development Process: Estimates of Development Costs and Times and the Effects of Proposed Regulatory Changes*, in ISSUES IN PHARMACEUTICAL ECONOMICS 151, 155 (R. Chien ed. 1979).

count, the average cost of developing one new drug has been estimated to be approximately $74 million.[24]

Enhanced regulation has not only increased the costs of research and development, but also has substantially reduced the value of patent protection by decreasing the average *effective* patent life of new drugs. A pharmaceutical firm must, as a practical matter, apply for a patent as soon as a compound with potential therapeutic utility has been identified—*i.e.*, before the clinical testing period. Once a compound enters clinical testing, it is difficult to prevent other firms from copying the discovery and claiming priority of invention (either to invalidate the patent or claim it for themselves).[25] But applying before the clinical testing period means that the 17-year statutory period of patent exclusivity[26] commences well before FDA approves the drug for marketing.[27] Even if the regulatory review by FDA proceeds smoothly and expeditiously, the most recent studies of drugs approved in 1976-78 show that actual marketing of a new drug is on the average 6.8 years away when the firm obtains

[24] *Id.* at 151, 180. Hansen calculated this cost as $54 million in 1976 dollars. The $74 million figure is the same estimate in current dollars.

[25] *See* Kitch, *The Patent System and the New Drug Application: An Evaluation of the Incentives for Private Investment in New Drug Research and Marketing*, in REGULATING NEW DRUGS 82, 85 (R. Landau ed. 1973) [hereinafter cited as *Patent System and NDA*]. In theory, the discovering firm might conduct its clinical testing in secret, but it is difficult to envision this as a practical matter. In any event, one of the principal purposes of the patent system is to encourage early disclosure of scientific innovations, which reduces wasteful duplication of research and encourages further advances in the field. *Id.* at 85-86; *see Sinclair & Carroll Co.* v. *Interchemical Corp.*, 325 U.S. 327, 331 (1945); REPORT OF THE PRESIDENT'S COMMISSION ON THE PATENT SYSTEM 2-3 (1966).

[26] 35 U.S.C. § 154.

[27] D. SCHWARTZMAN, *supra* note 15, at 163; *Patent System and NDA* at 85-86.

its patent.[28] Hence, the average effective life of drug patents is now only 10.2 years,[29] and the trend over the last fifteen years strongly suggests that it will continue to decline.[30]

The increased costs and diminishing patent protection for new drugs have, in turn, substantially reduced the expected rate of return for investment in pharmaceutical research and development. Two studies of rates of return after the 1962 Drug Amendments conclude that the expected rate of return for drug research and development has fallen significantly below the expected rate for most other industries.[31] As a consequence, the number of research projects undertaken by the industry has declined significantly[32] and many U.S. firms have shifted substantial segments of their development activities to countries that regulate the development period less stringently.[33]

[28] *See* CENTER FOR THE STUDY OF DRUG DEVELOPMENT, PATENT DATA—1976-78 U.S. NCE APPROVALS (Annual Surveys 1978-80).

[29] *Id.* Professor Kitch concludes that "the effect of the complex marketing clearance procedures has been to reduce the effective period of patent protection, and, correspondingly, the private investment likely to be made in the detection, development, and marketing of new drugs." *Patent System and NDA* at 86.

[30] The average effective patent life of new drugs previously fell by 1.5 years—or 10.8 percent—from an average of 13.9 years in 1966-69 to only 12.4 years in 1970-73. D. SCHWARTZMAN, *supra* note 15, at 173. The most dramatic decline occurred in the field of cardiovascular drugs, for which the average patent life dropped 10.1 years—or 65.4 percent—from 15.4 to 5.3 years. *Id.*

[31] D. SCHWARTZMAN, *supra* note 15, at 136-61; Clymer, *The Economics of Drug Innovation*, in THE DEVELOPMENT AND CONTROL OF NEW PRODUCTS (M. Pernarowski & M. Darrack ed. 1971).

[32] Sarett, *FDA Regulations and Their Influence on Future R&D*, RESEARCH MANAGEMENT, March 1974, 18-20.

[33] Lasagna & Wardell, *The Rate of New Drug Discovery*, in DRUG DEVELOPMENT AND MARKETING 155 (R. Helms ed. 1975). Lasagna and Wardell surveyed the fifteen largest firms in the industry, which

B. Reversal of the Fifth Circuit's Holding Would Substantially Curtail Discovery and Development of New Therapeutic Uses For Known, Nonstaple Compounds.

Because of the decreasing incentives to research and development in the pharmaceutical industry, the industry relies heavily on the patent system to justify the growing costs of drug development. In this precarious environment, requiring owners of patents for the use of nonstaple compounds to offer licenses to competitors will substantially curtail new use research. It amounts to granting the right of exclusivity inherent in a patent with one hand while withdrawing it with the other.

PMA members are currently engaged in screening unpatented, nonstaple compounds for possible new therapeutic applications, and several now hold method-of-use patents for such compounds.[34] Before the district court's decision in this case, there was good ground for believing that section 271 did not require the discoverer of a new therapeutic use for a nonstaple compound to license its competitors. The decision of the district court, however, cast doubt on the freedom of patentees to obtain relief against contributory infringement where competitor licenses had not been offered.[36] The Fifth Circuit properly reversed and thereby restored the incentive so clearly

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account for over 80 percent of research and development in the industry. Their survey reveals that the number of drugs tested abroad increased substantially between 1966 and 1974. By 1974, one half of all new substances were tested abroad. *Id.* at 157-58.

[34] For example, PMA members hold patents for the use of unpatented, nonstaple compounds in the treatment of gout, tuberculosis, arthritis, pain, and hypertension. PMA members engaged in screening unpatented, nonstaple compounds currently test for many potential therapeutic applications, most commonly cardiovascular, anti-infective, analgesic, and cancer chemotherapy.

[35] *See* note 9 *supra* and accompanying text.

intended by section 271 to investigate and market new uses for known, nonstaple compounds.[36]

Petitioners contend that compulsory licensing is not the sole alternative to the Fifth Circuit's affirmation of the patentee's right to sell nonstaples used in the patented method while refusing to license competitors. They suggest essentially three alternatives to compulsory licensing: the patentee could (1) license consumers directly to practice the patented method, (2) license professionals to practice the method, or (3) itself practice the method (Pet. Br. at 30-31).

Each of these alternatives is impractical and, we think, ultimately would disserve consumers. In the instant case, the transaction costs of expressly licensing thousands of farmers would raise the price of propanil substantially, and without any corresponding enhancement of research and development incentives. In contrast, commercialization of the patented discovery through sales carrying implied licenses does provide the reward for invention which the patent laws are intended to provide, and thus encourages the development of useful applications for otherwise previously unused compounds.

Licensing both professionals and consumers to administer propanil would only partially alleviate the problems of licensing only consumers. And licensing only professionals to administer the compound would raise the costs of spraying crops for those who would otherwise choose to spray their own fields. The same would be true if Rohm and Haas chose to spray propanil on crops itself. Moreover, in applying the compound itself, Rohm and Haas would exclude local spraying companies from the market, hardly a result compatible with the procompetitive philosophy petitioners espouse.

Petitioners' marketing alternatives are even more impractical for the pharmaceutical industry. Expressly li-

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[36] *See 1948 Hearings* 3-5.

censing millions of consumers or hundreds of thousands of physicians—even if it could realistically be done—would raise the price of drugs substantially, and perhaps out of reach, again with no augmented incentive to innovation. Plainly, there is no separate market for licensing users of the patented method apart from the sale of the nonstaple component. And neither of petitioner's last two alternatives is feasible for commercializing patents covering the use of drugs, since neither the manufacturer nor an intermediary distributor can be said to "use" the drug.

In short, if the Fifth Circuit's construction of section 271 is rejected, the only practical alternative is compulsory licensing of competitors. But compelling discoverers of new beneficial uses of nonstaple articles to license their discoveries would be self-defeating. By withdrawing the inventor's right to sell the nonstaple article and to withhold licenses from would-be competing sellers of the nonstaple, innovators will be denied any practical means for obtaining the reward for their invention contemplated by the patent system. To the extent that such reward is unavailable, the incentive to investigate and develop new therapeutic uses of nonstaple compounds will be diminished.[37]

This effect is magnified in the drug industry by the requirements of the maximum allowable cost (MAC) regulations promulgated by the Department of Health, Education and Welfare (HEW). These regulations provide for the establishment of ceilings on the maximum cost for "multi-source drugs"—*i.e.*, drugs sold by two or more companies—reimbursed under federal Medicare and state

[37] *See* J. MARKHAM, PATENTING AND LICENSING POLICY AND PRIVATE SECTOR PARTICIPATION IN ENERGY RESEARCH AND DEVELOPMENT App. 2-3 (1977) (prepared under an Energy Research and Development Administration contract); D. SCHWARTZMAN, *supra* note 15, at 158.

health programs.[38] If innovators are required to license others to sell a nonstaple drug, under present HEW policy the drug will be deemed a "multi-source drug" and therefore subject to the MAC limitations.[39] By thus limiting the price that an innovator may obtain for a new drug in this increasingly important segment of the market, the MAC program must be recognized as further reducing the available rate of return on discoveries of new uses[40] and consequently magnifying the disincentive to innovation that compulsory licensing would create.

A reduction in the expected rate of return for developing new uses is likely to redirect investment elsewhere.[41] Because, as noted, it costs on the average $74 million to investigate and develop a new drug, pharmaceutical firms are particularly sensitive to changes in the expected rate of return for various types of research. Manufacturers cannot afford to risk such substantial investment in investigating new uses of previ-

[38] *See* 45 C.F.R. §§ 19.1-19.6 (1979). The regulations also cover the maximum allowable costs for drugs purchased under "projects for health services," *id.* § 19.1(a)(3), and non-research drug procurements by HEW or its contractors, 41 C.F.R. § 3-4.6104-2 (1979). The maximum reimburseable cost is determined by the "lowest unit price at which the drug is widely and consistently available." 45 C.F.R. § 19.5(c) (1979).

[39] A MAC was set for doxepin hydrochloride, an anti-anxiety drug, when the patentee licensed just one other firm to manufacture and sell the drug. 43 Fed. Reg. 57972 (1978). In a currently ongoing case, *Pfizer, Inc.* v. *Califano*, Civ. No. 79-0185 (D.D.C. Jan. 23, 1979), a preliminary injunction against implementation of that MAC was denied.

[40] *See* D. SCHWARTZMAN, *supra* note 15, at 327-31.

[41] *See* J. MARKHAM, *supra* note 37, App. 2-3; D. SCHWARTZMAN, *supra* note 15, at 158. Schwartzman indicates that "a lower rate of return will tend to divert investment elsewhere. Thus, a reduction in the protection offered by patents will reduce the profit rate from investment in R&D only temporarily; it will encourage the industry to reduce the quantity of its investment in R&D and thereby raise the profit rate on R&D." *Id.*

ously ignored, and perhaps therapeutically promising, substances if they promise a lower rate of return than new, patentable compounds. As a consequence, however, many previously ignored compounds with promising but untested therapeutic value will continue to be ignored.

In light of the diminishing incentives for research and development in the industry, particularly the substantial reduction in the effective life of drug patents, the Court should hesitate to construe the scope of patent protection in a manner that will further reduce incentives to develop new therapeutic uses for known but undeveloped compounds. If further disincentives to innovation are to be created as the price of pursuing other public policy objectives, Congress and not this Court is the proper forum for undertaking this rebalancing of competing claims. As noted above, if there is a basic theme to the legislative history of section 271, it is Congress' strong desire to encourage development of useful applications for known but previously undeveloped compounds. The construction urged on this Court by petitioners and the United States would frustrate that plain legislative purpose.

CONCLUSION

For the foregoing reasons, the judgment of the Court of Appeals should be affirmed.

Respectfully submitted,

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March 21, 1980

APPENDIX

1948 Hearings

[3]

MEMORANDUM ON H.R. 5988 (80th CONG., 2D SESS.), SUBMITTED BY THE NEW YORK PATENT LAW ASSOCIATION

* * *

[4]

THE NEED FOR THE STATUTE

The need for a statute reviving the expression of law and morals contained in the doctrine of contributory infringement is apparent from the effect of the Supreme Court decisions. By them, two important classes of invention have been taken outside the protection of the patent law.

Discovery of new uses. "Discoveries" by inventors are the only subject matter of patents mentioned in the constitutional provision on which our patent law is based [footnote omitted]. The finding of a new and unsuspected property of an old thing or substance which enables it to do something which could not before be accomplished is a type of discovery which in the past has done much to promote the useful arts. Such discoveries by inventors have long been protected by method or process patents under the provisions of the statute permitting the patenting of new arts.

[5]

In chemical research, a new and commercially important result is not infrequently obtained by the use of

chemical compounds which have previously existed but have not been put to any practical use. A chemist seeking to solve some practical problem may discover that the result which he is seeking may be achieved by the use of a chemical compound which has a peculiar property not previously suspected. The practical importance of his discovery, and the practical advance which he has made in the art, are not affected by the question of whether or not the required chemical compound had previously been made. In view of the many years of diligence of German chemists and chemical students in making in their laboratories innumerable chemical compounds, regardless of any possible value to the compounds, it is altogether probable that, after a modern chemist has discovered how to solve a practical problem by the use of an unknown property of some chemical, he will find somewhere in the chemical literature a description of the compound which he has found necessary for this purpose. Under these circumstances, the patent which he obtains must be in the form of a process or method.

Before the recent Supreme Court decisions, such patents could be effectively enforced under the doctrine of contributory infringement, since anyone who manufactured and distributed a chemical for the sole and obvious purpose of causing infringement of a method patent is clearly a contributory infringer of the patent.

Under the recent Supreme Court decisions, new-use inventions which are most widely used, and therefore most important, are, as a practical matter, placed outside the protection of the patent law. The decisions prevent the patentee from obtaining relief against the person who is guilty of causing infringement of the patent and leave him only the right to recover against innocent members of the public who have been induced to use the patented process. Thus, the effect of the decisions is to protect the guilty and encourage suits against the inno-

cent. As a practical matter, no patentee can afford to attempt to protect . . . his invention by suing all the innocent members of the public who have been induced to use it. Thus, those who have made new-use inventions receive no reward for the advance which they have made in the art, and the stimulus of the patent system is withdrawn from this class of inventions.

MOTION FILED
MAR 21 1980

IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

No. 79-669

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, AND CRYSTAL CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

MOTION FOR LEAVE TO FILE BRIEF AND ANNEXED BRIEF ON BEHALF OF NATIONAL AGRICULTURAL CHEMICALS ASSOCIATION AS AMICUS CURIAE

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ROHM AND HAAS COMPANY,
Respondent.

MOTION OF NATIONAL AGRICULTURAL CHEMICALS ASSOCIATION FOR LEAVE TO FILE A BRIEF AS AMICUS CURIAE

The National Agricultural Chemicals Association ("NACA") respectfully moves this Court for leave to file instanter the accompanying brief in this case as *amicus curiae*. The consent of the attorney for Respondent has been obtained, but the attorneys for the Petitioners have refused to consent to the filing of a brief by NACA. NACA's interest in the issue before the Court transcends the interests of the parties to this action. Two of the parties, Rohm and Haas Company, defendant-Respondent, and Helena Chemical Company, a prior plaintiff-Appellee, are both members of NACA. The position of NACA favors Respondent; the attorneys of record were so informed when their consent was sought.

The issue presented by this appeal is whether the owner of a use patent who makes, formulates and markets an unpatented, *non-staple* chemical as a formulated product, for use in the patented process, must license other formulators to sell the product for that use. The resolution of this issue will have significant impact on the introduction of new pesticides.

NACA is a non-profit membership corporation organized under the laws of Delaware in 1933 and incorporated in 1934. NACA is interested in advancing the level of public understanding of the value of pesticides in the production of food and fiber, in fostering legislation which will promote the safe and proper use of industry products, and in encouraging continuing research for new products. NACA member companies, about 120 in number, formulate, produce and sell most of the pesticides used for agricultural production in the United States.

Thirty to forty or more of these companies are engaged in research and development ("R&D") to meet the needs of the world's farmers for safe and effective pesticides.

The R&D efforts, germane to the issue before the Court, include experimentation with *known* chemicals, literally millions of which are reported in the literature. In chemical research, a new and commercially important result is not infrequently obtained by the use of chemical compounds which have previously existed but have not been put to any practical use. A new use for a known or obvious chemical is patentable as a process for using the chemical, for example as a selective herbicide to control weeds growing among crops; a patent directed to such a "process-use" invention is sometimes referred to as a "use patent".

The discovery that a chemical has valuable properties as an agricultural pesticide is a long and costly research process. Its commercialization requires further test and development work which includes the accumulation and submission of the mass of data required to obtain government agency approval prior to marketing such a product. The cost—both for the R&D and the mandatory testing for Environmental Protection Agency approval—is extraordinarily high.

The Court of Appeals below reversed a district court holding which would have required the compulsory licensing of the use patents directed to known non-staple chemicals. The district court decision, had it been affirmed, would have acted as an almost total disincentive to any future research with such chemicals. The farmer, and the consumer he serves, would have been deprived of valuable inventions useful for combating world food and pest problems.

Lest it be thought that the perceived threat to future development of agricultural chemicals protectible only by use patents is theoretical or insignificant, it should be pointed out that in 1972 about twenty (20) percent of the patented pesticides had only use patent protection.* Apparently, each of those was discovered to be

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* Of the current pesticides listed in Johnson, *Pesticide "72"*, Chemical Week, June 21, 1972, at 34, and July 26, 1972, at 18, some 208 are indicated as being patented in the United States; but 37 of those are covered only by patent claims directed to the *use* of the compound. Identification of the patents involved is found in the *Chemical Week* article and in British Crop Protection Council, *Pesticide Manual* (2d ed. 1971). Some of the compounds covered only by use patents include DCPA, Dacthal, dalapon, S,S,S-tributylphosphorothioite, dimethoate, diphenamid, S,S,S,-tributylphosphorotrithioate, 2,4-D, and CDAA; each sells over two *million pounds annually* (1971 figures) as reported in EPA's Technical Studies Report TS-00-72-04 (1972).

useful as a pesticide only after the compound was known or obvious to the art, whereby the compound *per se* was not patentable as a composition of matter. Had the disincentive of compulsory licensing been a factor when these products were developed, many would never have reached commercialization.

It is apparent that the legal question on appeal has significant public interest implications affecting far more businesses and people than the parties to the action. Members of NACA are not the only ones affected, but they constitute a significant portion of the group. NACA and its members are necessarily concerned with the possibility that some important aspect of the legal question before this Court might go unconsidered in the briefs and arguments presented by the parties. NACA, therefore, presents to the Court this earnest petition for leave to file the annexed brief *amicus curiae* instanter.

Respectfully submitted,

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IN THE

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OCTOBER TERM, 1979

No. 79-669

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, AND CRYSTAL CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

---

BRIEF ON BEHALF OF THE NATIONAL AGRICULTURAL CHEMICALS ASSOCIATION AS AMICUS CURIAE

INTEREST OF AMICUS CURIAE

The National Agricultural Chemicals Association ("NACA") is a nonprofit membership corporation organized under the laws of the state of Delaware. NACA member companies include major producers and formulators of pesticides in the United States.

The character of NACA and its interest in the question of law presented on appeal is explained in its Motion for Leave to File a Brief as *Amicus Curiae,* to which this Brief is annexed.

STATEMENT OF THE ISSUE PRESENTED FOR REVIEW

The issue is whether the owner of a use patent who makes, formulates and markets an unpatented, *non-staple* chemical as a formulated product, for use in the patented process, must license other formulators to sell the product for that use.

STATEMENT OF THE CASE

The case was presented to the district court on the basis of stipulated facts, and counsel relies substantially on the statement of the case as set forth in the brief of Respondent, Rohm and Haas Company.

It is further noted that Respondent is engaged in the pesticide business and makes an unpatented chemical compound (designated "propanil"), formulates it and sells the propanil formulation for use pursuant to a patented process (method) by applying it to weeds and crops to destroy the weeds. The patent issued under the "process-use" class of inventions and is United States Patent No. 3,816,092 [hereafter the "Wilson Use Patent"]. Propanil is a non-staple compound and has no substantial use other than as a herbicide. Purchasers of Respondent's propanil formulations in this country are licensed by operation of law to use what they purchase according to the process of the Wilson Use Patent.

Propanil is the biologically active component of the compositions used in the practice of the Wilson Use Patent. Petitioner's conduct includes:

(1) Using non-staple propanil which they

(2) Mix or formulate with inert ingredients into a composition of such a nature that it will permit dilution with water by the farmer and application to the crops to be treated using conventional farming equipment,

(3) Knowing the same to be especially made for infringement of the Wilson Use Patent, particularly when

(4) The labelling accompanying the composition as sold contains

(5) Detailed instructions for use in a

(6) Growing weed infested agricultural crop (in this case rice),

(7) Knowing that under the provisions of the Federal Environmental Pesticide Control Act (FEPCA),[1] it is illegal for the purchaser of the composition to use the composition in a manner that is inconsistent with the labelling, and knowing that

(8) A purchaser, following these instructions, would

(9) Infringe the Wilson Use Patent.

Petitioners are continuing, and intend to continue, the making and/or selling and offering of propanil

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[1] Federal Environmental Pesticide Control Act, 7 U.S.C. § 136.

formulations for sale with the same recommendation and instructions. Petitioners Crystal and Helena conceded, at least for the purpose of the appeal below, that propanil is a non-staple article of commerce having no non-infringing use.

Thus, Petitioners' conduct completely parallels that of Respondent down to the explicit label instructions which teach the process-use invention of the Wilson Use Patent. Petitioners, in seeking a license from Respondent (shortly after the service of the original complaints in this action) demonstrated their desire to also pass on a license under the Wilson Use Patent to their customers.

SUMMARY OF ARGUMENT

Patents are granted for new and useful inventions which by statute must be unobvious to a person having ordinary skill in the art. They promote the progress of science and the useful arts.

Public policy underlies the grant of a patent since it is in the public interest to provide the incentive to expend the time and expense of pesticide research and development ("R&D") and commercialization, which includes accumulating a mass of data required to obtain the approval of government agencies, both state and federal.

Respondent is the owner of a patent directed to a process-use invention. It is in the pesticide business and is making available to the public the essentials (that is, the formulated, non-staple product together with the labelled instructions) required to practice the process-use invention.

The Fifth Circuit Court of Appeals upheld Respondent's statutory right to exclude infringers which is the very essence of its patent property right, including Respondent's election to preserve its exclusivity, by selling the non-staple propanil as a formulated product and refusing to license. This holding is in keeping with the relevant statutory provisions. Section 271 of United States Code, Title 35, must necessarily be construed in conjunction with the interrelationship of Sections 100(b), 101, 154, 281 and 283. This interrelationship makes it unequivocally clear that the patent owner of a use patent is entitled to a right to exclude within the scope of the patent grant and the relevant statutory provisions; this necessarily includes the right to refuse to license.

Appellant, in electing to preserve its right to exclude infringers, did only what it has a right to do, i.e., to sue infringers rather than license them, and accordingly, there cannot be misuse. Appellant at all times conducted itself within the confines of the relevant and interrelated statutory provisions. No basis for a holding of misuse has been established. The abrogation of this right to exclude, under the facts of this case, would be tantamount to compulsory licensing which is contrary to the public interest and in contravention of the patent laws and the Constitutional purpose.

ARGUMENT

I. THE PUBLIC POLICY CONSIDERATIONS

During the past quarter century of intensive organic chemical pesticide development, many products and product forms have been placed on the market. These include all types of chemicals, the principal

varieties being insecticides, fungicides, herbicides, plant growth regulators and some biological products. Modern food production programs are dependent upon the use of, and continual introduction of, new pest control agents.[2]

A. The Environment of the Invention—American Agriculture

It is believed that it would be helpful to this Court in their deliberations on the instant case, if the specific fact situation involved were viewed in the context of the total industry concerned,—viz., American agriculture. When so viewed, it will be apparent that the impact of the final result of this case will not be insignificant; it involves principles or matters of national interest.

American agriculture is today the envy of the world. This country has the ability to produce more agricultural products on less land at lower unit cost than any nation of the world. This is so because intensive and sophisticated technology is the driving force in agriculture—progress has been marked by one technological innovation after another, each bringing quantum leaps forward. Significant innovations have included the introduction of chemical fertilizers, the development of hybrid seeds, insecticides to prevent crop destruction by insects and herbicides to destroy weeds competing with crops for the available nutrients in the soil. None of these developments have come about in

[2] The character and operation of the pesticide industry is presented in A. Wechsler, J. Harrison and J. Neumeyer, *Evaluation of the Possible Impact of Pesticide Legislation on Research and Development Activities of Pesticide Manufacturers,* Environmental Protection Agency publication EPA-540/9-75-018 (1975) [hereinafter cited as *1975 EPA Report*].

an easy manner. Development takes years. A technological breakthrough in the laboratory has to be converted to economically feasible techniques, consistent with acceptable agricultural practices, while providing safety to the farmer in practicing the techniques and to the consumer of the crops flowing therefrom. In spite of the sophistication of today's agriculture in America, there is still much to be done. It would be against the interests of society to adopt a policy which would, in effect, contribute to the demise of further innovation.

The continuing expansion of world population is common knowledge. This country contributes handsomely to meeting the increasing worldwide need for food and fiber. In 1979, our exports of agricultural products amounted to $32 billion.[3] Agriculture is one of the most, if not the most, significant contributor to our balance of trade. Notwithstanding the present state and sophistication of our agriculture, there is still a growing need for increasing amounts of food and fiber. The only solution to this problem will be the continued development of new technology which hopefully will permit converting non-useable land into good farmland or, in the alternative or additionally, new technology to make existing land yield more.

Agricultural chemicals in general and pesticides in particular have been fully accepted and are widely utilized by the farmer. He recognizes that such chemicals, when properly used, are a proven means of increasing the agricultural yield of his land. However, two conditions must exist before the farmer will use

[3] World Agricultural Situation (WAS-21), at 40, U.S.D.A., Jan. 1980.

a particular pesticide. First, buying and using the pesticide must return him a profit. In other words, the value of increased crop production or decreased cost of production, realized by the use of the pesticide, must far exceed its cost. Second, the pesticide must be compatible with acceptable agricultural practices and equipment.

As any businessman, the farmer is always interested in keeping his costs as low as possible, particularly since he, as an individual, has no control over the selling price of major crops, such as rice. Neighboring farmers producing the same major crop do not enjoy different unit selling prices even though their unit costs may be different.

The real benefit to the farmer and to our national interests lies in continuing to maintain a competitive environment conducive to continuing innovative, high technology advancements in agriculture, thereby increasing the efficiency and productivity of both the land and the farmer. Using herbicides as a particular example, the ideal situation would be to reach the stage of technology that would permit total destruction of all competing weeds present in a particular crop. This ideal situation is yet to be realized. That this is so is seen by the fact that there are at least eight (8) rice herbicides, other than propanil, on the market today. The lowest possible price on existing pesticides can be best promoted by permitting the development of new and improved ones based on biologically active ingredients surpassing the performance of those we are aware of today.

In its totality, American agriculture embodies more than planting, growing and harvesting. While such

farmer activities are at the heart of American agriculture, this activity is facilitated and serviced by a number of support activities which have become individual, specialized industries in and of themselves which, together with the farmer himself, make up the total complex of American agriculture.

Chemical manufacturing companies produce the biologically active compounds required by the farmers. These same chemical companies, as well as independent formulators, convert these active ingredients into formulations useable by the farmer in accordance with his agricultural practices. Such materials are made convenient and accessible to the farmer through a large network of distributors and dealers.

Commercial applicators, both land based and aerial, supplement the farmer's own activities in properly using and applying the agricultural chemicals. Light and heavy equipment manufacturers provide the farmer with the mechanical tools needed in his activities. A complex distribution, storage and marketing system exists to facilitate bringing the agricultural products to the consumer. Technical guidance is made available to the farmer through universities and U.S. and State Departments of Agriculture by means of a network of experiment stations, strategically located, as well as County Agents having available the latest technical expertise to maximize agricultural production. While each of these activities is necessary and vital to the totality of American agriculture, they are nevertheless distinct, each embodying its own individual sphere of technical expertise.

Petitioners appear to have ignored this totality of American agriculture. Petitioners suggest that Re-

spondent, following the discovery, development, and patenting of a method of using a single, biologically active ingredient in the control of weeds in a growing crop, particularly rice, and now wishing to benefit from its invention and patent, has viable options to become a commercial applicator of pesticides or becoming rice farmers themselves; this is totally out of touch with reality.

There are approximately nine thousand individual rice farmers.[4] According to the National Aerial Applicators Association, Washington, D.C., there are three thousand aerial applicators, and 8,600 aircraft used in aerial applications.[5] Suggesting that the benefits of this invention might be pursued through attempting to involve approximately nine thousand individual rice farmers and/or three thousand aerial applicators in an *express* licensing program is not practical. When viewed from the standpoint of agriculture, the program adopted by the Respondent to make propanil available to the farmer is without question the simplest and most convenient way for *agriculture* to benefit from the invention made by the Respondent.

B. The Time and Expense of Pesticide R&D and Commercialization

Any chemical which a pesticide developer hopes to commercialize must not only be effective in solving a problem confronting the farmer (and do it economically); but it also must do so safely. Many stages are involved in the development and commercialization.

[4] 1974 Census of Agriculture, Vol. 1, Part 51, U.S.D.A.

[5] *Agricultural Aviation Study and Program Plan*, Vol. II, Supplemental Information, National Aeronautics and Space Administration, Office of Aeronautics and Space Technology, June 9, 1976.

The first basic stage of chemical pesticide research is directed to identifying compounds which might solve a particular problem in agriculture; the second basic stage is directed to determining the safety of the compound towards man and his environment, as well as the efficacy of the product for the intended use. There can be no commercial sale of an agricultural chemical until it is registered with the Environmental Protection Agency ("EPA"), and the chemical cannot be registered until the required data with respect to efficacy, environmental impact, residue, metabolism, etc., have been submitted and EPA has approved the label petition.

An appreciation of the stages and sub-stages involved accentuates the high risk and high cost involved in the research, development and commercialization of pesticides. The extremely poor success experience in the development of pesticides is a significant part of the high risk factor involved. For instance, smaller companies usually purchase compounds which are rejected by multi-product companies and screen them for pesticidal activity; whereas multi-product companies have a dual approach to the synthesis/screening process, *i.e.*, they screen chemicals synthesized in non-pesticidal areas of their companies as well as chemicals synthesized by chemists whose main function is to look for chemicals having biological activity.[6] The first approach, called the "shotgun" method, has a success-to-failure ratio of 1 to 30,000.[7] Although no statistics are available relating to the second approach, the over-

[6] *1975 EPA Report* at 28.

[7] *Id.* at 29.

all average is 1 to 7000 (i.e., 7000 compounds are screened for every successful product).[8]

In the case of herbicides, the first stage not only includes primary screening, but also secondary and tertiary screenings. In the primary screening, the compound is applied to (a) specially selected weeds and other plants grown in the greenhouse and/or (b) pans containing seeds of such plants in soil. Secondary and tertiary screenings involve similar activity with a more rigorous examination under other conditions, such as a greater variety of plants, various rates of application, various concentrations of the test chemical, etc. Only about ten percent (10%) of the compounds tested pass primary screening, and the entire screening process normally takes three to four months.

Candidate compounds showing promise at this stage are then synthesized in larger amounts for initial toxicology studies. The toxicology studies involve oral and topical tests on laboratory animals and take about four months. Candidate compounds will be dropped at this stage if toxicology studies so indicate, or if cost studies indicate that the compound will not be cost-competitive.

Small plot field testing follows to determine what effect the weather and other environmental factors will have on the candidate compound's performance. One of the purposes of small plot field testing is to develop metabolism and residue data needed for an experimental use permit, *i.e.*, data which will show the extent to which the candidate compound or any metabolite (decomposition product) thereof remains in the soil,

[8] *Id.*

in the water or in the crop itself. These data, together with the toxicology data and the efficacy data, are an integral part of the EPA experimental use permit application. This may involve several years of field tests before sufficient data can be generated to allow a conclusion to be reached as to whether or not an "experimental use permit" from the EPA should be sought to allow full-scale field tests to be conducted. Such permits are sought in only about one in ten cases.

Large scale field testing under the EPA experimental use permit must be pursued through a minimum of two growing seasons (usually about two years). In the meantime, further, more extensive toxicological testing and environmental testing is taking place. The combined effort may consume another three years, especially in view of the new EPA regulations regarding two year feeding studies for toxicology data. Compiling the information, preparing the petition for the full-label registration and obtaining EPA approval adds two more years to the process.

The time periods involved are significant. While there are separate time periods for each of the various stages of the R&D process, the *1975 EPA Report* indicates that the average duration for this process was "7 years between the years 1965 and 1975;"[9] whereas industry estimates projected it at 8.1 years.[10]

Moreover, the foregoing does not include the additional time required to develop a process, or the design, construction and start-up of a commercial plant to produce the pesticide product. These time periods

[9] *Id.* at 40.

[10] *Id.* at 45.

vary depending upon whether a company decides to start construction before label registration or waits until reasonable assurance regarding registration is received; this decision is usually dictated by the magnitude of the capital expenditure (as much as 20-30 million dollars).[11]

The 1974 estimated average cost per successful compound (including rejected compounds) was 7.4 million dollars [12] and is conservatively up to $15 million dollars or more today in view of inflationary factors and more stringent EPA regulatory requirements.

The *1975 EPA Report* indicates that the recommended minimum for entering this field as of February, 1975 (starting from scratch) was:

> $7 million to develop the first pesticide and a total of $50 million to commercialize the first successful product to the point of obtaining significant return on investment; 10 years of "dry time" until a return is seen on the investment. This includes discovery, testing, registration, plant construction, and initial marketing efforts.[13]

Not all failures are eliminated in the research process. The report also points up the risks involved in the development process:

> Most companies indicate that the difficulty in making market projections so far in advance (because of the long registration process) compounds the risk involved in a "go-ahead" decision on a pesticide product. Some companies plan to make that decision within the first two years of the development of a pesticide so that they can obtain commitments from raw material suppliers. Therefore, the companies have to anticipate market factors 6-8 years in advance.[14]

[11] *Id.* at 34.

[12] *Id.* at 35.

[13] *Id.* at 20.

The risks are multiplied in that the increasing amount of time required to develop and clear pesticides correspondingly decreases the seventeen-year period of patent protection. Some estimates project the average life of a pesticide at about 10 years, during which time safe, cheaper, and more effective competitive products are developed.[15] There are at least eight rice herbicides, other than propanil, on the market.[16]

It is to be emphasized that there are very few options in the foregoing development program; the extent and nature of the development program is mandated by regulations issued by the Environmental Protection Agency as a result of FEPCA. In accordance with the provisions of FEPCA, the label on the product has to be approved by and registered with the Environmental Protection Agency. The label must contain explicit instructions as to how the farmer is to use the product. The extensive development program outlined above has for its purpose that of establishing this method of use and assuring safety to man and the environment when so used. Consistent with this concept, the provisions of FEPCA make it illegal for a pesticide to be used in a manner that is inconsistent with the label.

[14] *Id.* at 22.

[15] R. Ouellette and J. King, *Chemical Week Pesticides Register* 117 (1977).

[16] R. Smith, J. Baker, D. Bowman and A. Klosterboer, *Southern Weed Science Society Research Report(s)* at 61 (1977), 97 (1976), 97 (1975), 78 (1974), and at 85 (1973).

If the farmer is to be expected to purchase and use the newly developed pesticide, it has to be in a form useable by him in accordance with agricultural techniques with which he is totally familiar. Infringement of the Wilson Use Patent is completed by merely diluting with water and spraying either Petitioners' or Respondent's product on a rice field as taught by their respective labels. Dilution and spraying is an ordinary, commonly practiced agricultural technique. Petitioners are only one ordinary step removed from directly infringing the Wilson Use Patent themselves. Petitioners have appropriated every facet of the inventive concept developed and patented by the Respondent.

C. The Incentive of Return on Investment Versus Disincentive of Compulsory Licensing

National goals of ensuring an adequate supply of food, feed and fiber, and of disease prevention and control, have benefited greatly from the development, production, and use of pest control methods.[17] Industry, the principal innovator and developer of pest control methods, feels that existing economic, technical, and regulatory barriers can significantly inhibit the development of new pest control products.[18] The pesticide industry relies heavily on the patent system, particularly the right to exclude infringers which is provided by the patent grant, to justify the high risk involved in its research, development and commercialization programs.

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[17] Arthur D. Little, Inc., *A Study of Incentives in Pest Control* (1976) (Prepared under an Environmental Protection Agency contract).

[18] *Id.* at 1.

NACA believes that the public is best served by having the greatest number and variety of pesticides available. Unless the judgment below is affirmed, there will be a tremendous negative impact on attaining such goals by discouraging future R&D efforts in the pesticide industry. The foregoing analysis of the R&D process shows that not every compound having significant activity can be carried through the complete evaluation process. Unless the judgment below is affirmed by this Court, there will be a significant negative impact on the decision making as to what compounds are carried forward in the advanced stages of the R&D process. The *1975 EPA Report* indicates that patent protection is usually initiated after secondary or tertiary screening has taken place.[19] Therefore, a decision as to patentability is usually made at this juncture. If the decision below is not upheld, the impact will be that only compounds capable of being protected by composition of matter patents, as opposed to use patents, will be carried forward. The success-to-failure ratio, currently 1 in 7000, will increase many times over if *only new* compounds (capable of being protected by composition of matter patents) proceed through further evaluation. Moreover, it is obviously more costly to synthesize new compounds and test them, than to test old compounds already known in the literature.

If it comes to pass that the continued future development of new and beneficial agricultural chemicals will be limited to those capable of being protected by patents directed only to a composition of matter *per se,* the problems associated therewith cannot be overemphasized. Predicting whether a particular product is

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[19] *1975 EPA Report* at 31.

patentable as a composition of matter *per se* is rarely a black or white decision. While the determination of the patentability of a new and unexpected use of a compound is not without its difficulties, the probability of an accurate prediction of patentability in such a case is several orders of magnitude more certain than predicting the patentability of a new compound as a composition of matter *per se*.

D. Failure of This Court to Affirm the Holding of the Court of Appeals Would Practically Eliminate Pesticide R&D and Commercialization With Known, *Non-staple* Chemicals

Under the decision of the district court, "the patent owner marketing unpatented, *non-staple* components of his *combination patent* [20] . . . [*must*] *first offer licenses* to others marketing that component *before it seeks equitable relief* for contributory infringement".[21] (Emphasis added). This holding, which was reversed by the Court of Appeals, would have compelled the patent owner of a use patent to license it as a precondition to enforcing it—a novel legal proposition.

Compulsory licensing is "a most serious inroad on patent rights." [22] Harvard economist Jesse W. Mark-

[20] The district court throughout its opinion refers to "a combination patent," which is *not* here involved. A *process* for the use of non-staple propanil *is* involved; that is, a process for using ("process-use") propanil as an herbicide.

[21] *Rohm and Haas Co.* v. *Dawson Chemical Co.*, 191 U.S.P.Q. 691, 708, n. 20 (S.D. Tex. 1976).

[22] *Compulsory Patent Licensing Under Antitrust Judgments: Staff Rep. on S. Res. 240,* Subcomm. on Patents, Trademarks and Copyrights of the Senate Comm. on the Judiciary, 86th Cong., 2d Sess. 3 (1960).

ham recently analyzed the effect of compulsory licensing on private sector R&D:

> It is generally agreed that mandatory licensing, by reducing the perceived value of commercially successful R&D, reduces the probable returns to R&D investment. . . .
>
> Since mandatory licensing at a reasonable royalty implies a reduction in the prospective returns on patents, the logical prediction is that it will have at least one of the following several effects:
> . . . .
>
> 2. It will reduce investment in R&D. . . . It is a basic tenet of economic theory that when the expected rate of return on a particular activity is suppressed, the ROI [return on investment] on other activities remaining the same, investment funds will be reallocated away from that activity and into others.[23]

Should the holding of the district court below become the settled law, NACA members will reorganize their approaches to R&D. Many will conclude that future R&D efforts should be limited to *new* chemical compounds, which can be *completely* protected, *i.e.*, made the subject not only of use patents, but of composition of matter patents as well. The latter unquestionably provide the discoverer with the right to refuse licenses to those who purchase the compound from unlicensed competitors.

This restriction of pesticide R&D activities would be most unfortunate for the public. There are vast num-

[23] J. Markham, *Patenting and Licensing Policy and Private Sector Participation in Energy Research and Development* App. 2-3 (1977) (Prepared under an Energy Research and Development Administration contract).

bers of known chemical compounds in the chemical literature of the last 100 years or so. The option of obtaining answers to some of the vexing pest control problems that confront today's farmers by probing and screening among them would be eliminated for all practical purposes. Most of these compounds would be destined to remain laboratory curiosities of no known use.

II. RESPONDENT'S ELECTION TO PRESERVE ITS RIGHT TO EXCLUDE IS EXPRESSLY SANCTIONED BY THE INTERRELATIONSHIP OF THE PATENT LAWS IN CONSONANCE WITH THE CONSTITUTIONAL PROVISION

A. The Right to Exclude Provisions

The Constitutional provision is the foundation for the United States Patent System.[24] There are two main aspects: the securing to inventors for a *limited time* the *exclusive right* to their inventions—the incentive aspect—in return for the *disclosure* of the invention to the public—the disclosure aspect.[25] Section 154 of Title 35, U.S.C., grants to the patentee or his assigns, the *right to exclude others, i.e.,* infringers, from making, using, or selling the patented invention for seventeen years.[26] Every patent grant provides this time-limited

[24] U.S. Const. art I, § 8: "The Congress shall have power . . . To promote the progress of science and useful arts, by securing for limited times to . . . inventors the exclusive right to their respective . . . discoveries."

[25] 35 U.S.C. § 112.

[26] 35 U.S.C. § 154, in pertinent part, reads: "Every patent *shall contain* . . . a grant to the patentee, his heirs or assigns, for the term of seventeen years, . . . of the *right to exclude others* from making, using, or selling the invention throughout the United States. . . ." (Emphasis added.)

right to exclude. The public interest is premised on this right, which provides: (a) incentive to invent; (b) incentive to disclose; (c) incentive to "invent around" and produce "alternative or competing inventions," and (d) incentive to provide risk capital to develop and commercialize inventions. Section 261 of Title 35 gives patents—*i.e.,* the patent right to exclude—"the attributes of personal property."[27]

B. The Statutory Classes of Inventions

Section 101 establishes the classes or categories of inventions which may be patentable; Section 100(b) further elaborates on these classes. They include a class for composition of matter inventions and a class for process-use inventions.[28] These two classes are germane to the issue before the Court.

Two patents, one in each of these classes, were issued. Respondent and Monsanto Company, independent of each other and in confidence, synthesized propanil and discovered its biological activity. Both Respondent and Monsanto thought the product to be patentable as a composition of matter *per se.* A patent, United States Patent No. 3,382,280 [hereinafter the "P-Compound Patent"], was issued to Monsanto Company claiming propanil as a composition of matter *per se.* However, in subsequent litigation between the

[27] 35 U.S.C. § 261, 1st para., reads: "Subject to the provisions of this title, patents shall have the attributes of personal property."

[28] 35 U.S.C. § 100(b), in pertinent part, reads: "The term 'process' . . . includes a new use of a known . . . composition of matter. . . ." Section 101, in pertinent part, reads: "Whoever invents . . . any process . . . or composition of matter . . . may obtain a patent. . . ."

two parties, the patent was held to be invalid. Propanil was held to be not patentable as a composition of matter *per se* because it did not meet the "conditions for patentability" in that it was held to be implicit in the prior art. However, the *use* of propanil is patented and is the subject of the "Wilson Use Patent" in issue before the Court.

C. The Purpose of Use Patents, the Invention Provisions and the Disclosure Provision

The patentability of a process for a new *use* for a known composition of matter (*e.g.*, a chemical compound) was clarified and defined in Section 100(b), a new statutory provision in the 1952 Patent Act. Such processes must meet the conditions for patentability.[29] These conditions are set forth by the "invention provisions", *i.e.*, Sections 102 and 103,[30] to determine whether the contribution of an alleged invention merits a patent. Further, there are "disclosure provisions" imposed on the applicant for a patent, *i.e.*, that the applicant disclose his invention in terms *which enable a skilled person to practice the invention.*[31]

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[29] H. R. Rep. No. 1923, 82d Cong., 2d Sess., Revision Notes at 17, *reprinted in* [1952] U.S. Code Cong. & Ad. News, 2394, 2410 [hereinafter cited as *H. R. Rep. No. 1923*].

[30] 35 U.S.C. § 102 and § 103 are directed to the conditions for patentability: novelty and loss of the right to a patent (§ 102) and non-obvious subject matter (§ 103).

[31] This is frequently referred to as the "*quid pro quo*" for the grant to a patentee of the right to exclude others, only for seventeen years, under 35 U.S.C. § 154. 35 U.S.C. § 112, 1st para., reads:

> The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

One of the draftsmen of the 1952 Patent Act explained that Section 100(b) "recognizes that a new use *is patentable* thereby clarifying the law and practice of the Patent Office on this point."[32] (Emphasis added). It defines the use class invention as a "process." Claim 1 of the Wilson Use Patent is illustrative of the subject and scope of a patent which is directed to such a process-use invention.[33]

The effect of the final decree holding the P-Compound Patent invalid is to give propanil the legal status of other chemical compounds which are unpatentable as compounds *per se*. Anyone is free to make, use or sell propanil for other uses, when such uses become available, other than the use covered by the Wilson Use Patent. In fact, anyone may even obtain other "use patents" directed to other new and unobvious uses of propanil in other process-use inventions. Moreover, anyone is free to make propanil in the United States and export it to countries where it is not covered by patent rights in force.

The net result is that the owner of the Wilson Use Patent has the right to exclude others from the "proc-

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[32] Zinn, *Commentary on New Title 35, U.S. Code "Patents"*, [1952] U.S. Code Cong. & Ad. News 2507, 2512.

[33] Claim 1 of the Wilson Use Patent reads:

> A method of selectively inhibiting growth of undesirable plants in an area containing growing undesirable plants in an established crop, which comprises applying to said area 3,4-dichloropropionanilide [propanil] at a rate of application which inhibits growth of said undesirable plants and which does not adversely affect the growth of said established crop.

ess-use" invention. The specific purpose of Section 100(b) was to clarify and define that an inventor can obtain a use patent for a process-use invention; this section is interrelated with Section 271, as is discussed *infra.*

D. The Infringement Definitions and the Contributory Infringement Concept

Section 271 [34] defines how and when a patent is infringed, *i.e.,* when there is a violation of the patent grant. Paragraphs (b) and (c) concern indirect infringement and are germane to the present issue. Paragraph (b) is directed to the "inducement" of infringement; paragraph (c) to "contributory infringement."

[34] 35 U.S.C. § 271 reads:

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

A significant distinction must be noted: paragraph (b) is silent on whether a staple or non-staple component is involved; paragraph (c) specifically requires that it be a non-staple. *A non-staple is involved in this case.*

Some background on the development of contributory infringement doctrine will aid in its understanding. Contributory infringement is an expression of the common law doctrine of joint tortfeasors.[35] Mr. Justice Frankfurter called it "an expression of both law and morals," and said it "is accredited by legal history as well as ethics." [36] Judge Taft said: "If this healthful rule is not to apply to trespass upon patent property, then, indeed, the protection which is promised by the constitution and laws of the United States to inventors is a poor sham." [37] The House Committee Report on the 1952 Patent Act states the intention to clarify the doctrine of contributory infringement:

> One who makes a special device constituting the heart of a patented machine and supplies it to others with directions (specific or implied) to complete the machine is obviously appropriating the benefit of the patented invention. It is for this reason that the doctrine of contributory infringement, which prevents appropriating another man's patented invention, has been characterized as "an expression both of law and morals." Considerable doubt and confusion as to the scope of contributory infringement has resulted from a number of decisions of the Courts in recent years. The purpose of this section is to codify in statu-

[35] 52 Am. Jur. *Torts* § 114 (1944).

[36] *Mercoid Corp.* v. *Mid-Continent Inv. Co.,* 320 U.S. 661, 677, 678 (1944) (Frankfurter, J., dissenting).

[37] *Thomson-Houston Electric Co.* v. *Ohio Brass Co.,* 80 F. 712, 721 (6th Cir. 1897).

tory form principles of contributory infringement and at the same time *eliminate this doubt and confusion.*[38] (Emphasis added).

Clearly, the doctrine of contributory infringement was developed by the courts to enable the patent owner to realize the benefit of his patent under circumstances where it is impractical for him to pursue direct infringers.

E. Section 271, Paragraph (d), and Misuse

Paragraph (d) is significant because not only does it apply to conduct on the part of Respondent, it specifically establishes that certain conduct is proper. A note in the House Judiciary Committee report says that both paragraphs (b) and (c) of 35 U.S.C. § 271 "define and limit contributory infringement of a patent

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[38] *H. R. Rep. No. 1923* at 9; [1952] U.S. Code Cong. & Ad. News at 2402. The hearings on the 1952 Patent Act clearly demonstrated that Congress grasped the significance of their action. For example, Congressman Rogers (Colorado) summarized:

> Then in effect this recodification, particularly as to section . . . [271], would point out to the [Supreme] court, at least that we remove this question of confusion as to whether contributory infringement existed at all, and state in positive law that there is such a thing as contributory infringement, or at least it be the sense of Congress by the enactment of this law that *if you have in the Mercoid case done away with contributory infringement, then we reinstate it as a matter of substantive law* of the United States and that you shall hereafter in a proper case recognize or hold liable one who has contributed to the infringement of a patent.
>
> That is the substantive law that we would write if we adopted this section. . . . [Emphasis added]

Patent Law Codification and Revision: Hearings on H. R. 3760 Before Subcomm. No. 3 of the House Comm. on the Judiciary, 82d Cong., 1st Sess. at 159 (1951) [hereinafter cited as *1952 Patent Act Hearings*].

and paragraph (d) is *ancillary to these paragraphs.*"[39] (Emphasis added). Therefore, paragraph (d) supports Respondent's conduct. In the words of the Judiciary Committee Report:

> *[O]ne who merely does what he is authorized to do by statute is not guilty of misuse of the patent.*[40] (Emphasis added).

The reference to statutory authority includes the full legal implications of paragraphs (b) and (c). Paragraph (d) insures that the doctrine of patent misuse is not employed to make a "poor sham" of the patent grant.[41] It was enacted expressly to indicate clear Congressional intent on the subject of the doctrine of contributory infringement.

III. THE INTERRELATIONSHIP OF THE RELEVANT STATUTORY PROVISIONS SHOWS THAT THERE IS NO MISUSE; RESPONDENT IS ENTITLED TO EXCLUDE INFRINGERS

A. Respondent's Conduct, In Refusing to License, Is in Consonance With the Wilson Use Patent Rights

Respondent's conduct must necessarily be considered with respect to the interrelationship of Section 271 with the other relevant statutory provisions; when that is done, Respondent's conduct is seen to be within

(1) the scope of the patent (the Wilson Use Patent) granted to it on its process-use invention, a class of in-

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[39] *H.R. Report No. 1923* at 28; [1952] U.S. Code Cong. & Ad. News at 2421.

[40] *Id.* at 9; [1952] U.S. Code Cong. & Ad. News at 2402.

[41] *See* note 37, *supra.*

vention specifically recognized by 35 U.S.C. § 100(b) and § 101;[42]

(2) the provision providing exclusivity in 35 U.S.C. § 154;[43]

(3) the provision providing for remedy in 35 U.S.C. § 281 as a result of infringement;[44]

(4) the provision providing for injunctive relief under 35 U.S.C. § 283;[45] and

(5) the provisions in 35 U.S.C. § 271(b), (c), and (d) providing relief for the patentee against infringers and contributory infringers and protection against misuse.

A basic rule of statutory construction requires that the various portions of a statute be read together. *Richards* v. *United States,* 369 U.S. 1 (1962); *Saxon* v. *Georgia Ass'n of Independent Ins. Agents,* 399 F.2d 1010, 1013 (5th Cir. 1968); *American Standard, Inc.* v. *Crane Co.,* 510 F.2d 1043 (2d Cir. 1974), *cert. denied,* 421 U.S. 1000 (1975). The interrelationship of 35 U.S.C. § 100 (b), § 101 and § 271 was seen by a principal draftsman of these sections when he hypothesized in 1948 about the very situation now before this court:

> In chemical research, a new and commercially important result is not infrequently obtained by the use of chemical compounds which have previously existed but have not been put to any practical use. A chemist seeking to solve some practical problem may discover that the result which he is seeking may be achieved by the use of a chemical compound which has a peculiar property not previously suspected. The practical importance of his discovery, and the practical advance which he has made in the art, are not affected by the question of whether or not the required chemical compound had previously been made. . . . *the patent which he obtains must be in the form of a process or method.*
> . . . .

Under the recent Supreme Court decisions [*Mercoid* and its predecessors], new-use inventions which are most widely used, and therefore most important, are, as a practical matter, placed outside the protection of the patent law. The decisions prevent the patentee from obtaining relief against the person who is guilty of causing infringement of the patent and leave him only the right to recover against innocent members of the public who have been induced to use the patented process. *Thus, the effect of the decisions is to protect the guilty and encourage suits against the innocent.* As a practical matter, no patentee can afford to attempt to protect [sic] his invention by suing all the innocent members of the public who have been induced to use it. Thus, those who have made new-use inventions receive no reward for the advance which they have made in the art, and

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[42] The interrelationship between Sections 100(b) and 101 of United States Code, Title 35 is discussed in Section II.B. of this Brief, *supra.*

[43] *See* notes 24 and 26, *supra,* and the related text.

[44] Section 281 establishes the remedy for infringement of a patent. It provides that "[a] patentee shall have remedy by civil action for infringement of his patent." Appellant initiated this civil action under 35 U.S.C. § 271(b) and (c) due to infringement by Appellees.

[45] Section 283 provides for injunctive relief "in accordance with the principles of equity to prevent the violation of any right secured by patent . . ." The right to exclude is such a right, and Appellant seeks just such injunctive relief—a relief to which it is entitled, as a matter of right under the patent grant.

> the stimulus of the patent system is withdrawn from this class of inventions.[46] (Emphasis added)

The Fourth Circuit Court of Appeals in *Rohm & Haas Co. v. Roberts Chemicals, Inc.*, 245 F.2d 693, 699 (4th Cir. 1957), perceived this interrelationship and made these observations regarding the 1952 Act:

> *Section 100* of the new Act modifies the old rule as to the patentability of a new use of an old product by providing that the term "process" includes a new use of a known . . . composition of matter. . . . The result is that one who invents . . . such [a] process may obtain a patent therefore under . . . § 101.
>
> *Section 271* of the statute re-enacts the rule that whoever sells a component . . . for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or adapted for use in infringement of the patent, is liable as a contributory infringer; *but the rule is limited to a material which is not a staple article or commodity of commerce.*[47] (Emphasis added.)

[46] This statement was made at *Contributory Infringement of Patents—Definition of Invention: Hearings on H. R. 5988, H. R. 4061 and H. R. 5248*, Before Subcomm. on Patents, Trademarks and Copyrights of the House Comm. on the Judiciary, 80th Cong., 2d Sess. 5 (1948), in which the language (also drafted by Judge Rich) was essentially the same as that adopted in the 1952 Patent Act. These prior hearings, which provided a basis for the inclusion of Section 271 in the 1952 Act, are referenced several times during the *1952 Patent Act Hearings* at, *e.g.*, 141, 151 and 162.

[47] The non-staple article, which was perceived by the Fourth Circuit, is a specific requirement of Section 271(c).

When applied to the case before this Court, this interrelationship shows that Appellant's conduct is in accordance with the statutory provisions.

B. There Is No Duty to License and the Right to Refuse to License Is Essential If Incentive Is To Be Maintained

The law imposes no duty on the part of the Respondent to license; but rather makes it clear that Respondent has the right to reserve—exclusively to itself, if it chooses—the rights to its invention. That is the essence of the patent right. *Cataphote Corp.* v. *DeSoto Chemical Coatings, Inc.*, 450 F.2d 769, 774 (9th Cir. 1971), *cert. denied*, 408 U.S. 929 (1972); *Cf. Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908). Since the patent grant provides the right to exclude infringers, this refusal is within the patent right, as is the incentive aspect.[48] Otherwise competitors would be encouraged to wait for others to make the expenditure of effort and money to invent and then copy—*i.e.*, "take a free-ride," adopting a "lie back and wait" attitude, hoping to take advantage of accessibility to the invention by payment of a "reasonable" royalty.

The view of the Department of Justice, that licenses must be granted at the moment the use patent owner decides to market the unpatented chemical, is egregious. At this point, the innovation process is complete; all risks associated with the marketing of a chemical have been thoroughly evaluated (*e.g.* toxicology, residue, metabolism, environmental and efficacy tests). The "free-riders" will be content to sit idly by and

[48] For a greater appreciation of the incentive the patent grant fosters, *see* Section I.B. of this Brief, *supra*.

wait for chemical manufacturers to engage in the high technology research necessary to identify new chemicals and assume the risk of bringing such products to the marketplace. Once the "free-riders" are convinced that the market exists for the new chemical, all they need to do is request a license.

It is not in the public interest to encourage "free-riding." It would discourage invention and disclosure when only use patent protection is possible. One of the principal draftsmen has noted that:

> [T]he purpose of Section 271 . . . is to afford adequate protection to valid patents against those who are clearly seeking to benefit from piracy, especially in situations where enforcement against direct infringers is impractical.[49]

Indeed, the purpose of Section 271 is to maintain the incentives of the patent system in a practical manner in real-world situations.

C. Petitioners' Conduct Dictated Respondent's Action to Exercise Its Right to Exclude Infringers

In the exercise of its right to exclude infringers, Respondent refused to license and elected to enforce its patent rights against infringement or contributory infringement in accordance with 35 U.S.C. §271(d)(3),[50] which, as previously noted, is interrelated with 35 U.S.C. § 154, § 281 and § 283.

The exercise by Respondent, of the right to exclude Petitioners—the infringers—was called for under the

[49] Rich, *Infringement under Section 271 of the Patent Act of 1952*, 35 J.Pat.Off.Soc. 476, 497 (1953).

[50] *See* note 34, *supra*.

facts previously set forth, and especially, the application of these facts to 35 U.S.C. § 271(b) and (c).[51] These facts show applicability of the provisions of 35 U.S.C. § 271, both paragraphs (b) and (c), to the sale of a formulation of a *non-staple* chemical made *and labelled* with detailed and explicit instructions to purchasers of it which would insure the infringement of the Wilson Use Patent.

An analysis of the interrelationship of these relevant statutory provisions and the facts in this case clearly show that Respondent was at all times strictly within the confines of these relevant statutory provisions; therefore, misuse is simply absent.

IV. THE NON-STAPLE CHEMICAL: CONGRESS CLEARLY INTENDED TO VALIDATE RESPONDENT'S CONDUCT IN THIS CASE

A. This Court's Own Opinions Suggest That Section 271 Was Intended by the Congress to Provide a Clear Remedy for Contributory Infringement and to Limit the Application of the Misuse Doctrine

In *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178, 198 (1933), a case involving the public policy involved in a dispute over the title of a government-developed invention, the Court stated:

> The courts ought not to declare any such policy; its formulation belongs solely to the Congress. . . .
>
> These are not legal questions, which courts are competent to answer. They are practical questions, and the decisions as to what will accomplish the greatest good for the inventor, the government, and the public, rests with the Congress. *We should not read into the patent law limitations and con-*

[51] *See* Statement of the Case, *supra*, and note 34, *supra*.

> *ditions which the Legislature has not expressed.* (Emphasis added).

The limitation which *Mercoid Corp.* v. *Midcontinent Investment Co.,* 320 U.S. 661 (1944), placed on the remedy of contributory infringement, and particularly the comment therein "what residuum exists we need not determine at this time", was largely responsible for the enactment by the Congress of Section 271 in the 1952 Patent Act. 320 U.S. at 669. This Court has also recognized, in the only cases relevant to Section 271, that the clear intent of Congress was to reverse the *Mercoid* rulings where contributory infringement was the necessary result of an unlicensed sale of an unpatented part of the invention. In his dissenting opinion in the first *Aro* case, *Aro Mfg. Co.* v. *Convertible Top Replacement Co.,* 365 U.S. 336, 378, n. 6 (1961), Justice Harlan felt that the intent of Congress was unmistakable:

> It seems clear from the legislative history of the 1952 Act that Congress intended (1) to reaffirm the doctrine of contributory infringement . . . (2) to give that doctrine precedence against a claim of patent misuse as conceived in the Mercoid cases, at least where the misuse is said to inhere simply in assertion of patent rights.

This language of Justice Harlan was specifically approved by Justice Brennan in writing the majority opinion in the second *Aro* case, *Aro Mfg. Co.* v. *Convertible Top Replacement Co.,* 377 U.S. 476, 492 (1964).

We know of no conflicts with post 1952 Patent Act decisions of other Circuit Courts of Appeals as to the

scope of Sections 271(c) and (d); in fact, we find support besides that of the Fifth Circuit Court of Appeals from which this case arose.

Two decisions apposite to the present case are particularly illuminating: *Rohm & Haas Co.* v. *Roberts Chemicals, Inc., supra,* and *Sola Electric Co.* v. *General Electric Co.,* 146 F.Supp. 625 (N.D.Ill. 1956). The Fourth Circuit in *Roberts Chemicals* observed that the situations present in *Mercoid* had been "materially changed by the passage of the new patent statute of July 19, 1952." 245 F.2d at 699.

The district court in *Sola Electric,* like the lower court here, was squarely faced with the effect of Section 271(d) on the earlier *Mercoid* decisions. The patentee sold an unpatented *non-staple* component (ballasts for fluorescent lighting fixtures), and with the sale granted an "implied license" to use it in the patented system. No one was licensed under the patent except by operation of law when he purchased the unpatented component. Predictably, despite the newly-enacted Section 271(d), defendant, when sued for infringement, asserted patent misuse as a defense. These facts are congruent with the present case. The court in *Sola Electric* refused to sustain the defense of patent misuse, holding:

> Subparagraph (d) of Section 271 . . . certainly makes substantial changes in the law as announced in the Mercoid cases. . . . *The court holds, accordingly, that the said Act of 1952 makes proper and lawful that which under the doctrine of the Mercoid cases,* above cited, *would have been a misuse of the patent.* (Emphasis added.)

146 F.Supp. at 647-48

Also apposite is *Grinnell Corporation* v. *American Monorail Company,* 285 F.Supp. 219 (D.S.C. 1967), where Judge Hemphill found the sale of an unpatented loom cleaning machine for use in a patented process constituted contributory infringement within 271(c). However, District Judge Renfrew, in *Bio-Rad Laboratories, Inc.* v. *Becton, Dickinson & Co.,* Civil Action C. 78-0548-CBR, United States District Court for the Northern District of California, still adheres to the rather narrow view applied in *Mercoid* in spite of the clear language of 35 U.S.C. § 271(c) and (d). The technical subject matter in this case is more complex and involves multiple components. It does not involve a single, non-staple component (chemical) which is here in issue.

The application of 271(c) in *Biuro Projektow* v. *U.O.P., Inc.,* 203 U.S.P.Q. 175 (N.D.Ill. 1979), is not clear due to the substantially different fact pattern and rationale applied by the Judge in arriving at his decision. In any event it is safe to say that where the facts have been similar to those above and the interpretation of Section 271(c) and (d) was involved, both of the Circuit Courts of Appeals which have addressed this issue, and all except one of the District Courts throughout a number of different jurisdictions, have found that Section 271(c) and (d) favor Respondent's position.

The district court in the present case failed to appreciate the interrelationship of Section 100(b) and subsections (c) and (d) of Section 271;[52] the Court of Appeals did and reversed.

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[52] *See Rohm and Haas Co.* v. *Dawson Chemical Co.,* 191 U.S.P.Q. 691, 701, n. 7 (S.D. Tex. 1976).

35 U.S.C. § 271, paragraphs (c), (d)(1), and (d)(2), *do* specifically employ the term "contributory infringement" and thus interrelate; this term is not defined anywhere else in the Patent Act. Paragraph (c) specifically requires that the component be a non-staple, as is propanil. The definition of contributory infringement of paragraph (c) must necessarily carry over into paragraph (d). The Fourth Circuit Court of Appeals in *Roberts Chemicals* placed emphasis on this non-staple aspect when referring to contributory infringement, and stated that "the rule is limited to a material which is not a staple article or commodity of commerce." 245 F.2d at 699.

B. Legislative History Confirms That Respondent's Acts Are Sanctioned by Section 271: Section 271(d) Is Ancillary to Section 271(c) Which Is Clearly Directed to *Non-Staples*

The legislative history of Section 271 clearly indicates that paragraph (d) was intended to be ancillary to paragraph (c).[53] One of the principal draftsmen, during the Congressional hearings on the 1952 Patent Act, said:

> [T]hat to put any measure of contributory infringement into law you must, to that extent and that extent only, specifically make exceptions to the misuse doctrine, and that is the purpose of paragraph (d). *It goes with, supports and depends upon paragraph (c).*[54] (Emphasis added).

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[53] *See* note 39, *supra.*

[54] *1952 Patent Act Hearings* at 161-62 (Statement of Giles S. Rich).

He later specifically related paragraph (d) to paragraph (c):

> So attached to paragraph (c) we have a paragraph (d) that says that the recovery, the enforcement against contributory infringers, the holding out of the patent against contributory infringers, and granting them licenses, the use of it to protect the business and making money out of it, and getting your reward as a patentee, all of these things shall not be misuse, and then contributory infringement, which we have had all the time, would become effective again. . . .[55]

Section 271(d)(1) authorizes the Respondent to derive revenue from acts which, if performed by another without its consent, would constitute contributory infringement, and 271(d)(3) specifically allows the Respondent to bring suit to enforce its rights against contributory infringement. This is all Respondent has done. It has sold propanil, and it has brought this suit to enforce its patent rights. By operation of law, the buyer can use the propanil to carry out the patented use (an act which would constitute contributory infringement if performed by another). Section 271 (d) clearly states that these acts shall not cause the patent owner to be deemed guilty of misuse. All of Respondent'e actions fall within specifically sanctioned activities of the interrelated statutory provisions and therefore patent misuse is clearly absent.

C. Statements of Opponents of the Enactment of Section 271 Also Confirm

The Department of Justice, the very agency which has submitted an amicus brief in support of the Petitioners in this case, opposed enactment of Section 271 (d) precisely because it would expand the contributory infringement doctrine at the expense of the misuse defense.

[55] *Id.* at 173; *see* also note 38, *supra.*

In 1949 testimony of John Stedman, Chief of the Legislation and Clearance Section of the Antitrust Division, in referring to a section corresponding to present Section 271(d), stated that:

> Its effect, however, is to permit a patentee to sell . . . unpatented materials . . . for use with a process patented by him, and at the same time prohibit his competitors, by suit for infringement, from selling such unpatented materials in competition with him.
>
> In short, enactment . . . would enable the patentee to exercise control over the unpatented materials usable in his . . . patented process and oust from the market his competitor dealing in the same materials.[56]

Then in hearings in 1951, Wilbur L. Fugate, also testifying on behalf of the Antitrust Division of the Department of Justice, in objecting to Section 271 (d), stated:

> "As I interpret section (d) it says that if there is contributory infringement the patentee may recover even though there is misuse."[57]

In a letter of July 3, 1951 from Deputy Attorney-General Peyton Ford, the Department of Justice sub-

[56] Hearings on H.R. 3866 *Before Subcommittee No. 4 of House Committee on the Judiciary,* 81st Cong. 1st Session at 52 (1949).

[57] *1952 Patent Act Hearings* at 165.

sequently submitted an Extension of Testimony of Mr. Fugate in which it is stated that this section

> ". . . is particularly objectionable in the opinion of the Department since, although couched in general terms, its effect is to permit a patentee to sell unpatented parts for a patented device or combination and at the same time prohibit his competitors, by suit for contributory infringement, from selling such unpatented materials in competition with him. . . . The proponents of this section of the bill, accordingly, do not so much wish to clarify the law as to change it." [58]

As the Department of Justice recognized, the effect of Section 271 (d) is to make clear that the practice followed by the Respondent in this case is not a patent misuse and to overrule any contrary holding of the *Mercoid* cases. This is particularly clear in the issue before the Court involving a *non-staple* chemical and Sections 100(b), 271(c) and 271(d).

D. The Perspective: The Very Narrow Scope (Small Cost to the Public) of the Right to Exclude of the Process-Use Class of Patent for the Non-Staple Chemical, Which Is Unpatentable *per se*, Results in Big Public Benefit

In 1952, when Congress revised the patent laws in Title 35 U.S.C., and Sections 100(b) and 271 of that Title were enacted, there was a clear mandate to insure that the process-use class of inventions for non-staples receive the attributes, including the rights to exclude, of the other classes of inventions.[59] The scope of the right to exclude for the process-use class of inventions

[58] *Id.* at 207.

[59] See II.B. of this Brief, *supra*, for general discussion.

is limited to the *use* covered by the patent. In the case of a non-staple, it qualifies under Section 271(c); it ceases to qualify under Section 271(c) if it does not continue to be a non-staple. In that case, patent protection continues for the seventeen-year term of the patent, but without the benefit of Section 271(c). There is still another factor which has a diminishing effect on this term, i.e., the time required to secure governmental clearance.[60]

A process-use invention may evolve in two basic cases—in case (1), from a researcher working with a chemical known in the prior art or, in case (2), from a researcher who develops a new chemical.

In case (1), since the chemical was known in the prior art, it is not patentable as a composition *per se*, but if the chemical had no practical use before the invention was made (e.g., it was a laboratory curiosity) and it meets the "conditions" for patentability,[61] it can qualify for a process-use patent under 35 U.S.C. § 100 (b) and § 101. Further, if it is a *non-staple*, under 35 U.S.C. § 271(c)—since this is the first practical use—a market or line of commerce is *created* for the chemical.

In case (2) since the chemical was *not* known in the prior art, it may be able to meet the "conditions" for patentability as a composition *per se* under the composition of matter class of inventions; if so patentable, it would receive the relatively broad right (vis-à-vis that afforded the process-use class) to exclude provided by this class. If it is a new chemical but unpatentable as a composition *per se*, nevertheless, it too can qualify

[60] See I.B. of this Brief, *supra; 1975 EPA Report* at 104.

[61] See note 30, *supra*.

for a process-use invention under 35 U.S.C. § 100(b) and § 101 if it meets the "conditions" for patentability. Further, if it is a non-staple, it qualifies under Section 271(c).

Congress clearly recognizes, in Section 271(c), that in the case of a non-staple, the potential to "suppress competition" is non-existant since the first (non-staple) use *creates* a market or line of commerce for the chemical. In the case of a staple, there is already in existence (a) another use and (b) another market or line of commerce.

The distinction between staple and non-staple also squarely deals with the ambiguous use of the term "unpatented" in considering process-use inventions. It resolves the kaleidoscope effect of the word "unpatented"—the cases up to 1952 had referred rather imprecisely to the staples sought to be restricted as "unpatented". The mere use of the world "unpatented," in the absence of analysis of the specific character of the "unpatented" material, can lead to many misinterpretations of the law. In the issue before the Court, the "unpatented" material is a single, non-staple chemical, which is the "essence" of the Wilson Use Patent.

Congress, in Section 271(c), insures that the posture of non-staples is clear; it being clear, the incentive is enhanced to justify the time and expense of R&D and commercialization in order to develop uses for "unpatented" materials which have no use at present.[62] This incentive is premised on the prospect of receiving a process-use patent, a class of patent protection having relatively narrow scope and thus is small in "cost" to

[62] See Section I.B. of this Brief, *supra*.

the public compared with the high cost for the ongoing research, development and commercialization activity it promotes—the *big public benefit*.[63]

V. THE *PURITY* IN THE ISSUE: A SINGLE, NON-STAPLE PRODUCT, ONE USE, ONE USE-PATENT, AND THE PATENT OWNER WANTING A FAIR RETURN ONLY AS THE SOLE MAKER AND SELLER OF THE PRODUCT FOR THAT ONLY USE

The issue before the Court involves the interconnection of (1) a single, (2) non-staple chemical, (3) a single patent and (4) a refusal to license. It may be obscured by the improper use of connotations associated with classical terms used in the antitrust and misuse jurisprudence. This use victimizes those involved by suggesting an issue of misuse. Once the improper use of these terms is recognized, the untenability of the misuse issue is clear.

These connotations are associated with classical terms such as "unpatented", "tie-in" (there is only a single, non-staple product involved here, making a tie-in totally inapplicable) "suppression of competition" and "license" (here, a license to a buyer by operation of law; there is no express license, but rather a refusal to license). Any concerns with respect to the connotations associated with the terms "unpatented" and "suppression of competition" were obviated in the discussions in the immediately preceding section. The terms "tie-in" and "license" are now addressed.

[63] See Section I.B. of this Brief, *supra*, for general discussion.

A. The Single, Non-Staple Product (Chemical)

Propanil is the only product involved in the issue. Moreover, it is a single, non-staple chemical product. The only use for propanil, not patentable as a chemical composition *per se*, is the sole use provided by Respondent and protected by the Respondent's Wilson Use Patent. Respondent, rather than "suppressing competition" has in fact created a market and line of commerce for the non-staple propanil.

B. Obviation of Any Contention of "Tie-In"

A tie-in arrangement is "an agreement by a party to sell one product (the tying product) but only on the condition that the buyer also purchase a different (or tied) product."[64] Under the antitrust laws,[65] tie-in arrangements are illegal if the seller has market power (though not necessarily market dominance) in the tying product market,[66] and if competition is foreclosed in the tied product market.[67] The issue before the Court involves only one product, the herbicide propanil.

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[64] *Northern Pacific Ry.* v. *United States*, 356 U.S. 1, 5 (1958).

[65] Sherman Act, 15 U.S.C. § 1 (1964); Clayton Act § 3, 15 U.S.C. § 14 (1964).

[66] In *United States* v. *Lowe's Inc.*, 371 U.S. 38, 45 (1962), the Court indicated that:

> Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product's *desirability to customers* or from *uniqueness of its attributes.* (emphasis added)

[67] The Court in *Fortner Enter. Inc.* v. *United States Steel Corp.*, 394 U.S. 495, 501 (1969) stated that:

> [T]he controlling consideration is simply whether a total amount of business, substantial enough in terms of dollar-volume so as not to be merely *de minimus*, is foreclosed to competitors by the tie. . . .

When a tie-in arrangement is declared illegal, it is because it is considered to be inherently anti-competitive and to serve "hardly any purpose beyond the suppression of competition."[68] In the issue before the Court, there is no "suppression of competition."[69]

Thus, because there is only one product, the three issues which must be resolved to show the illegality of a tie-in arrangement are absent from the issue before the Court: (1) whether two products are involved in the arrangement; (2) whether the seller has market power in the tying market; and (3) whether or not a not insubstantial amount of competition is foreclosed in the tied market. The latter two issues are reached only after a court makes the primary determination of product separability—whether the seller is actually selling two products while claiming to sell only one.

In *Morton Salt Co.* v. *G. S. Suppiger Co.*,[70] the Supreme Court recognized that the equitable doctrine of "patent misuse" precludes a patentee from enforcing a patent that has been the subject of improper license restrictions (here, because there is a refusal to license, license restrictions are necessarily absent) or other

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[68] *Standard Oil Co. of Cal.* v. *United States*, 337 U.S. 293, 305 (1949). *See also Northern Pacific Ry.* v. *United States*, 356 U.S. 1, 6 (1958).

[69] See discussion in Section IV.D. of this Brief, *supra.*

[70] 314 U.S. 488, 492-93 (1942). The Court held that a patentee could not enforce his patent against any infringer if he had used unlawful restrictions in his licenses with others unless and until such "misuse" was purged. Earlier, in *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917), the Court as held that it would not enforce an improper tying limitation imposed by a patentee.

improper exploitation (absent here because Respondent has conducted itself in consonance with the Wilson Use Patent grant).

In *Morton Salt,* the patent involved a machine for depositing a predetermined amount of salt into vegetables being canned on a common canning line, a notoriously steamy atmosphere in which to achieve accuracy of salt measurement. Salt tablets which were not affected by this atmosphere were supplied to the machine which put the desired number of tablets in the cans as they went by. Salt and salt tablets were old and available from many sources and the machine was quite indifferent as to any quality of the salt tablets involved, other than perhaps as to their size, a feature in no way affecting the inventive/claimed aspects of the patented machine. The patentee required licensees of the patented machine to use only salt sold by the patentee. Misuse was found. There were two products and "conditioning," that is the license was "required" or "coerced" to take the salt for use in the patented machine. As noted, Respondent sells only the one product, propanil.

Three decisions illustrate the absurdity of any contention of tie-in with respect to the sale of the single, non-staple product (propanil) in the issue before the Court. They point up that even when two products are involved, tie-in arrangements involving patents may be justified where they are unavoidable because of necessary legitimate business needs, and can be pro-competitive in effect. In *United States* v. *Jerrold Electronics Corp.*[71] Jerrold, a pioneer in the development of com-

[71] 187 F.Supp. 545 (E.D. Pa. 1960), *aff'd per curiam,* 365 U.S. 576 (1961).

munity television antenna systems, sold its systems on condition that the purchaser use Jerrold's repair and maintenance services. The trial judge concluded that the practice was reasonable at its inception on the ground, *inter alia,* that it "was instituted in the launching of a new business with a highly uncertain future." However, the time required to meet its special needs had expired and to that extent Jerrold was found to have violated Section 1 of the Sherman Act.[72]

In *Dehydrating Process Co.* v. *A. O. Smith Corp.*[73] the First Circuit approved an arrangement in which the manufacturer of a patented silo unloader would sell it only for installation in patented silos of its own manufacture. The practice was adopted after various purchasers of the unloader complained that they had unsuccessfully used it with silos manufactured by others.

Even in *Kugler* v. *AAMCO Automatic Transmissions, Inc.,*[74] where an *express* license was involved, the

[72] *Id.* at 557, 558.

[73] 292 F.2d 653 (1st Cir. 1961), *cert. denied,* 368 U.S. 931 (1961); *cf. Susser* v. *Carvel Corp.,* 206 F.Supp. 636 (S.D.N.Y. 1962), *aff'd,* 332 F.2d 505 (2d Cir. 1964), *cert. dismissed,* 381 U.S. 125 (1965) (practice of tying sales of unpatented ice cream mix and other products to the use of the Susser patent found not to violate § 3 of the Clayton Act); *Electric Pipe Lines, Inc.* v. *Fluid Systems, Inc.,* 231 F.2d 370, 372 (2d Cir. 1956) (in approving a patentee's refusal to supply plans and instructions for installation of a patented heating system unless the purchaser also bought the unpatented components from him, the court stated: "Where the owner of a combination patent designs the installation and guarantees its performance, it is not unreasonable use of the patent to insist that the components of the patented system be obtained from it.").

[74] 337 F.Supp. 872, 876 (D. Minn. 1971) *aff'd,* 460 F.2d 1214 (8th Cir. 1972).

court sustained a single product defense in connection with the alleged tying of advertising services to a franchise license, and declared: "Advertising was not tied to the purchase of the license; it was the essence of the liecnse." [75]

The Respondent is obviously only selling a single, non-staple product (propanil) and has not granted licenses to anyone, and, in fact, has refused to license. In this posture, Respondent in selling the non-staple propanil for its only use, the "essence" of its process-use invention, and refusing to license others.

C. Obviation of Any Contention That a "License" Exacted by Law for Buyer to Use a Single, Non-Staple Product Can Be the Basis for a "Tie"

Respondent is the holder of a process-use class of patent for a single, non-staple chemical. This patent, like all patents, has the attributes of personal property.[76] Respondent has refused to license, and has exercised its right to exclude infringers, i.e., the Petitioners.[77]

Respondent has not acted to create for itself any rights by private contract, i.e., it does not grant licenses. In so doing, it has decided to forego any consideration, monetary or otherwise, it might derive by this use of its patent property. It only sells non-staple propanil. The significance in the decision of Respondent not to use his patent property to create any rights by private contract has been described in a case perti-

[75] 337 F.Supp. at 876.

[76] See note 27, *supra*.

[77] For details *see* Section III of this Brief, *supra*.

nent on this point, *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*: [78]

> and from failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding, and rights which he may create for himself by private contract, which, however, are subject to the rules of general, as distinguished from those of the patent, law.

It is clear that Respondent is not receiving any consideration by way of private contract (the grant of a license) or from a second product ("tied-product"). It is equally clear that Respondent is receiving only one consideration, namely that from its sale of the non-staple propanil for use in the practice of the process of the Wilson Use Patent.

An explicit or express license is one granted by the patentee to derive a benefit (consideration) from his personal property, the patent, by a private contract. This arrangement must be carefully distinguished from the situation involving a license by operation of law. In this latter, the patentee—or in the instant case, the Respondent—when in the posture of a seller, is in actuality *estopped,* by operation of law, from asserting its patent right against one who buys the product protected by the patent—in this case propanil. While this estoppel is sometimes referred to as an "implied license," it is not a license in the classical sense. It is not granted by the seller,—but rather is *exacted from the seller* to estop the seller from asserting its patent rights. It is the law which exacts for the buyer an *im-*

[78] 243 U.S. 502, 514 (1917).

munity under the seller's patent. In reality, no "license" is awarded; the seller is merely estopped since it received consideration by the sale of propanil. In this way, the law forbids the extraction of additional restraints, based on the patent. Thus, the law precludes any tie-in on the part of the patent owner in this case.

The seller-patentee is also estopped by another doctrine of law, the doctrine of exhaustion of patent rights with respect to the sale of a material part of the invention. This is a second "estoppel", the exaction of an "implied license" to insure that the buyer can use or sell the item purchased from the patent owner with immunity from the patent.

The exhaustion principle has a long history dating back to *Adams* v. *Burke,* 17 Wall. 453 (1873), where Mr. Justice Miller stated that the patent owner "having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly patentees." *Id.* at 456. This exhaustion principle applies equally to the sale of an item which is material to practicing the patent, although the item may be unpatented itself. More recently in *United States* v. *Univis Lens Co.,* 316 U.S. 241 (1942), Justice Stone has so stated in the following:

> An incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it, and upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the articles sold. 316 U.S. at 249.

In *Motion Picture,*[79] pertinent on this point, the Court also dealt with and affirmed the doctrine of exhaustion. *See also, Hobbie* v. *Jennison,* 149 U.S. 355 (1893) and *Strauss* v. *Victor Talking Machine Co.,* 243 U.S. 490 (1917).

Propanil, involved in the issue before the Court, is a non-staple chemical. In the case of a non-staple, the distinction between a "license" by operation of law, which is really an estoppel against suit by patentee, and explicit licensing, is of great significance. The "significance" is that there is not even the potential for a "tie-in" in the former (estoppel), although there may be such potential, depending upon the particular facts involved, in the latter (explicit licensing). In the former, the seller does not foreclose the buyer—rather, it is the seller who is foreclosed (estopped) by operation of law.

In conclusion, a "license" imposed or exacted by operation of law is not a license in the classical sense, i.e., one that by private contract creates consideration for the patent owner. It is an estoppel; it cannot, absent more, be the basis for a "tie-in" in the case of a sale by the patent owner of a single, non-staple chemical product which is itself the "essence" of the patent.

VI. IN SUMMARY: THERE IS NO MISUSE

Section 271, when read with Section 100(b), both sections first emerging in the 1952 Patent Act, adds significant dimensions to, and a clarification of, the patent laws.[80]

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[79] 243 U.S. 502, 516 (1917).

[80] *See* Section III of this Brief, *supra.*

Sections 100(b) and 271, when further interrelated with Section 154, clearly establish the right of Respondent to exclude infringers in consonance with the scope of the Wilson Use Patent. The Fourth Circuit Court of Appeals appreciated this interrelationship in *Rohm & Haas Company* v. *Roberts Chemicals, Inc.*[81] These sections are further interrelated with Sections 281 (right to remedy for infringement)[82] and 283 (right to injunctive relief).[83] It is demonstrably clear that the right to exclude infringers is real; however, Congress then provided Sections 271(b), (c), and (d)(3) to explicitly clarify patentee's rights of action (Section 281) and the right to injunctive relief (Section 283) to insure that this right is *real* and not a "*poor sham.*"[84]

The district court's position, then, that Respondent is guilty of misuse because it "seeks in this lawsuit to monopolize the sale of propanil by taking it from the "public domain",[85] is clearly untenable, and the decision of the district court was properly reversed by the Fifth Circuit Court of Appeals. There cannot be misuse by "one who merely does what he is authorized to do by statute".[86]

The Patent and Trademark Office granted the Wilson Use Patent to Respondent and Respondent has

[81] *See* note 47, *supra,* and the related text.

[82] *See* note 44, *supra.*

[83] *See* note 45, *supra.*

[84] *See* note 37, *supra.*

[85] *Rohm and Haas Co.* v. *Dawson Chemical Co.,* 191 U.S.P.Q. 691, 703 (S.D. Tex. 1976).

[86] *See* note 40, *supra.*

properly conducted itself within the scope of that patent and the relevant statutory provisions; Respondent is not "taking" anything—it is "giving." Respondent has given the rice farmer the option of using a new herbicide which had not been previously available to the farmer.

The mandate by the Congress is explicit on the status of the process-use class of invention for the non-staple in issue before the Court. The right to exclude, including the right to refuse to license, in the case of chemicals which are unpatentable as compositions *per se,* promotes innovation. The impact of innovation on our economic system is profound. It has been said that

> Advances in knowledge have been the biggest single factor in economic growth and productivity gains in the U.S. over the last four decades. . . . high technology, R&D intensive industries have made an especially strong contribution to the economy. . . . These industries have on the average increased output, productivity and employment several times as fast as low technology industries . . .[87]

This right to exclude insures the utilization of the non-staple as a resource in the effort to support the nation's innovation requirements, particularly in high technology fields, e.g., the pesticide industry.[88] It is narrow in scope, thus low in "cost" to the public, but big in the impact it makes on promoting the utilization of resources for research, development and commercialization to meet the Nation's needs.

[87] American Assoc. for Adv. of Science "Research and Development, AAS Report III, R&D in the Federal Budget: Fiscal Year 1979, R&D Industry and the Economy" prepared by W. H. Shapley and Don I. Phillips, Washington, D.C. 1978, p. 77-78.

[88] *See* Section I.C of this Brief, *supra.*

Congress knew full well that it was creating specific statutory exceptions to the doctrine of misuse when it enacted Section 271(d), and that it was providing patent owners operating within the narrow exceptions created by Sections 271(d)(1) and (d)(2) with the power to sue contributory infringers under Section 271(c) through the exception created by Section 271(d)(3).

If Congress had decided that public policy required that a patent owner offer licenses to contributory infringers before suit is brought, it could have easily done so, especially in view of the perceived impact of Sections 271(c) and (d) on the *Mercoid* cases. To the contrary, it did not do so.

CONCLUSION

The record fully supports the decision of the Court of Appeals holding that the actions of the Respondent are within the conduct authorized by the Patent Act of 1952 and constitute no misuse.

This Court should affirm.

Respectfully submitted,

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MOTION FILED
MAR 21 1980

IN THE

Supreme Court of the United States

OCTOBER TERM 1979

No. 79-669

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY and HELENA CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

MOTION FOR LEAVE TO FILE BRIEF AND BRIEF FOR THE LICENSING EXECUTIVES SOCIETY (U.S.A.), INC., AS *AMICUS CURIAE*

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MOTION OF THE LICENSING EXECUTIVES SOCIETY (U.S.A.), Inc., For Leave to File a Brief as *Amicus Curiae*

The Licensing Executives Society (U.S.A.), Inc. ("LES"), respectfully moves this Court for leave to file the accompanying brief in this case as *amicus curiae*. The consent of the attorney for Respondent has been obtained, but the attorney for Petitioners has refused to consent. The interest of LES in the issue before the Court transcends the interests of the parties to this action. The position of LES favors the decision of the Court of Appeals, and the attorney for Petitioners was so informed.

The question presented by the Petitioners relates to the inherent right of an owner of a patent for the only known use of a composition of matter, *i.e.*, a nonstaple

chemical, not to be compelled to license his competitors. It raises serious problems of compulsory licensing with respect to nonstaple materials having no substantial noninfringing use. Stated more succintly, the issues are:

1. Is the owner of a patent claiming a new process for using a nonstaple chemical, *i.e.*, one having no substantial use other than as claimed in the patent, compelled to license his competitors as a condition to exercising his right to sell the chemical itself?

2. Do 35 U.S.C. §271 (c) and (d) permit the owner of a patent claiming a new use of a nonstaple chemical, *i.e.*, one having no substantial use other than as claimed in the patent, to prohibit unlicensed competitors from selling that chemical admittedly for the use claimed in the patent?

3. Is the owner of a patent claiming a new process of using a nonstaple chemical, *i.e.*, a chemical having no substantial use other than as claimed in the patent, guilty of patent misuse if he sells the chemical (and thus, by operation of law, impliedly licenses purchasers) but otherwise refuses to license under the patent?

LES is a nonprofit corporation organized under the laws of the State of New York. It has over 1600 members in the United States, and an equal number in affiliated foreign societies, all of whom have significant interests and responsibilities regarding innovation, technology development, transfer (licensing), marketing and utilization of inventions by the public. LES members are from both large and small companies as well as universities, individual inventors, attorneys, and consultants.

The members of LES are involved in licensing inventions and technology on behalf of their employers or clients, and most are equally active as licensors and

licensees. Their work involves continuing contact with the financing and generation of new inventions and with problems of bringing innovations from the laboratory to practical use. They are also concerned with the interrelation between patent protection and the ability of an enterprise to attract capital for innovation. They are persons who buy, sell, and attempt to protect very substantial investments in innovation, much of which may be endangered by the position adopted by the District Court and urged by Petitioners here. They, perhaps more so than any other group, are personally acquainted with the real-world economics of innovation and the effects of statutory and other authorities upon technological development, use, and transfer.

The legal issue before the Court has significant public interest implications affecting far more businesses and parties than the parties to the case. Members of LES represent a significant portion of the affected group. LES has no legal interest in the outcome of the case before the Court. However, it has a vital interest in helping to see that the law made in this case will result in encouraging and fostering innovation and major investments in research and development and in making new technology available for the benefit of the public.

LES is concerned with anything which unreasonably discourages innovation without commensurate public benefit. LES opposes compulsory licensing, which would be required by both the District Court decision and the views urged by Petitioners. While recognizing society's need to correct manifest abuse, we believe that minimizing governmental restrictions on the licensing of technology permits the patent system to work as the most effective, proven means for creating new products, processes, jobs and industry, enhancing trade, and encouraging competition.

LES and its members view with the greatest interest and concern the possibility that some important aspect of the facts and legal questions before this Court might go unconsidered in the briefs and arguments presented by the parties and other *amici*. Therefore, we urge the Court to grant us leave to file the annexed brief *amicus curiae* instanter.

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DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, CRYSTAL CHEMICAL COMPANY AND HELENA CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

BRIEF ON THE BEHALF OF LICENSING EXECUTIVES SOCIETY (U.S.A.), INC. AS *AMICUS CURIAE*

INTEREST OF THE AMICUS CURIAE

The issues presented in this matter and the interest of LES in those issues are set forth in the accompanying Motion for Leave to file a Brief as *Amicus Curiae.* We are concerned with the chilling effect on innovation and the weakening of the patent system which would inevitably flow from the result sought by the Petitioners.

SUMMARY OF ARGUMENT

In procuring and enforcing its rights under the patent in suit, Rohm and Haas (Respondent) has not taken anything from anybody. Prior to the invention disclosed in the patent in suit, propanil had no known practical or commercial use. As a result of its ingenuity, effort and willingness to accept financial risk, Respondent discovered and patented a highly beneficial use for propanil as a selective, post-emergent agent to control weeds in rice crops. Respondent thus created a market for propanil, a market which was previously nonexistent.

Respondent began developing that market by selling propanil to rice farmers who, by operation of law, receive the right to use propanil as disclosed in the patent. Exercising its basic rights as a patentee, Respondent refused to license Petitioners—Respondent's competitors—under the patent. Nevertheless, Petitioners, who had no part in developing the only practical use for propanil, sell propanil to rice farmers, thus exploiting the market created by Respondent's invention. After an exhaustive review of the applicable authorities, the Court of Appeals quite properly held that Petitioners' conduct constituted contributory infringement, and that, in seeking to halt that conduct, Respondent had done nothing more than the law allowed.

In urging reversal of the Court of Appeals' decision, Petitioners argue, *inter alia*, that Respondent's failure to license contributory infringers constitutes patent misuse. As demonstrated below, Petitioners' argument inevitably leads to the conclusion that Respondent must license competitiors as a prerequisite to *selling* a nonstaple chemical, *i.e.*, one which has no use other than in practicing Respondent's invention.

We submit that no one would be willing to accept the risk and spend the time, resources and effort to discover and develop an innovative use for an existing but otherwise unusable nonstaple compound if, in any event, he will be compelled as a condition to participating in the market he thus creates, to license competitors who invest nothing, risk nothing, and contribute nothing. That result—which is contrary to the constitutional purpose of patents—is plainly not required under the patent laws or any other law. Any public benefit it may arguably foster would clearly be outweighed by the administrative difficulties and expense it would inevitably demand and by the disincentives it would pose to further innovation.

ARGUMENT

POINT I 35 USC § 271 (c) and (d) PRECISELY EXPRESS CONGRESSIONAL INTENT AND SUPPORT THE COURT OF APPEALS' DECISION HEREIN.

In considering the place of 35 U.S.C. §271(d) in the overall scheme of the United States patent laws, it is appropriate first to remember just what rights a patentee is granted by a patent. 35 U.S.C. § 154 specifies that:

> Every patent shall contain . . . a grant to the patentee . . . for the term of seventeen years . . . of the right to exclude others from making, using, or selling the invention throughout the United States, ...

The "right to exclude" includes not only the right to bring a civil action against an infringer, 35 U.S.C. § 281, but also includes the right to refuse to license others to make, use or sell the statutorily protected discovery. *Hartford Empire Co.* v. *United States*, 323 U.S. 386, 417 (1945); *Crown Die & Tool Co.* v. *Nye Tool & Mach. Works*, 261 U.S. 24, 34, 35, 67 (1922); *Motion Picture Patents Co.* v. *Universal Film*

Mfg. Co., 243 U.S. 502, 510, 514 (1917); *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405, 425 (1908) and *E. Bement & Sons* v. *National Harrow Co.*, 186 U.S. 70, 90 (1902).[1]

The present case relates to *contributory* infringement which is now defined in the statute, 35 U.S.C. § 271(c):

> (c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be expressly made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

It should be emphasized that the statute expressly refers to sale of "a component of a patented" invention and a "material or apparatus for use in practicing a patented process." Thus by definition in the statute itself, contributory infringement occurs, under specifically limited conditions, when something *less* than the entire claimed invention is sold. If this were not so there would be no need to distinguish § 271(c) contributory infringement from § 271(a) direct infringement.[2] This does not "expand" the statutory grant. Rather it is a natural and necessary part of that grant, which includes the right under § 281 to sue infringers, and without which the

[1] The Brief for the United States as Amicus Curiae entirely ignores this basic right which is part of every patent grant.

[2] Section 271(a) defines direct infringement:

> [W]hoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

grant would be incomplete. Before a § 271(c) contributory infringement is actionable, the following requirements must be met:

> 1. There must be a direct (§ 271(a)) infringement involving the "component" or "material or apparatus," *Aro Mfg. Co.*, v. *Convertible Top Replacement Co.*, 377 U.S. 476 (1964) [*Aro II*], and *Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972).
>
> 2. The "component" or "material or apparatus" sold by the alleged contributory infringer must constitute "a *material part* of the [claimed] invention."
>
> 3. The alleged contributory infringer must have actual *knowledge* that the "component" or "material or apparatus" is "especially made or especially adapted for use in" a direct (§ 271(a)) infringement of the patent.
>
> 4. The "component" or "material or apparatus" must not be a "staple article or commodity of commerce *suitable for substantial noninfringing use.*"

The wording of § 271(c), read as a whole, unmistakably reveals that a patentee's rights extend, in the very specific circumstances enumerated above, to exclusion of sales of nonstaple components having no meaningful use other than in infringing the patent.

The law of contributory infringement originated with the courts, and this Court has been instrumental in the adoption and development of that law. However, in the *Mercoid Cases* (*Mercoid Corp.* v. *Mid-Continent Invest. Co.*, 320 U.S. 661 (1944) and *Mercoid Corp.* v. *Minneapolis Honeywell Regulator Co.*, 320 U.S. 680 (1944)), the Court severely eroded the law of contributory infringement, overweighting the doctrine of patent misuse. In the words of Mr. Justice Douglas:

> The result of this decision, . . . is to limit substantially the doctrine of contributory infringement. What

residuum may be left we need not stop to consider. [320 U.S. at 669]

As a direct result of the *Mercoid* decision, Congress enacted legislation to revive the most salutary aspects of the prior common law of contributory infringement. Congress recognized and considered the inherent tension between the public policies of the patent laws vis-a-vis the doctrine of patent misuse and the antitrust laws. Contributory infringement was expressly returned to the patent law by 35 U.S.C. § 271(c). Additionally, certain acts of patentees which Congress found to be consistent with a patentee's right to exclude, and not inconsistent with the public policies underpinning the doctrine of patent misuse, were expressly approved in the statute, 35 U.S.C. § 271(d):

> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

It is elementary statutory construction that the "contributory infringement" referred to in § 271(d) must be that defined in § 271(c). Contributory infringement is not otherwise defined or mentioned in the Patent Act.

The 1952 enactment of § 271(c) explicitly defined contributory infringement and specified certain acts which a patentee may lawfully do, but which, under

Mercoid and absent § 271(d), might have been considered patent misuse. At that time, even without § 271(d), it was not patent misuse for a patentee to refuse to license his patent.[3] Thus as noted by the Court of Appeals (599 F.2d at 688), § 271(d) reversed the *Mercoid* misuse doctrine when the unpatented component sold is a nonstaple, not suitable for substantial use apart from its use in the claimed invention.[4]

Petitioners admit that "for the purpose of this proceeding it is presumed that Petitioners are contributory infringers under § 271(c)" (Pt. Br. at 6). Petitioners also admit that "propanil is a nonstaple." Thus, the question is whether Respondent's refusal to license—the basic right of any patentee[5]—an admitted contributory infringer to sell a nonstaple composition having no use other than as claimed in the patent constitutes patent misuse.

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[3] *Mercoid*, 320 U.S. at 666.

[4] This Court has already recognized the Congressional intent in § 271. As stated in *Aro II*, 377 at 492:

> ... Congress enacted §271 for the express purpose of reinstating the doctrine of contributory infringement as it had been developed by decisions prior to Mercoid, and of overruling any blanket invalidation of the doctrine that could be found in the Mercoid opinions. See, e.g. 35 USC §§271(c), (d); Hearings, supra, n. 6, at 159, 161-162; and the Aro I opinions of Mr. Justice Black, 365 US at 348-349 and nn. 3-4; Mr. Justice Harlan, id., at 378, n. 6; and Mr. Justice Brennan, id., at 365-367.

As stated earlier by Mr. Justice Harlan dissenting in *Aro Mfg. Co., Inc.* v. *Convertible Top Replacement Co., Inc.*, 365 U.S. 336 (1961)[*Aro I*]:

> It seems clear from the legislative history of the 1952 Act that Congress intended (1) to reaffirm the doctrine of contributory infringement ... (2) to give the doctrine precedence against a claim of patent misuse as conceived in the Mercoid cases, at least where the misuse is said to inhere simply in assertion of patent rights. [365 U.S. n. 6 at 378]

[5] *See* cases cited at pp. 3 and 4, *supra*.

The answer, clearly, is no.[6] Respondent's refusal to license is authorized by 35 U.S.C. § 154, which expressly provides patentees with the "right to exclude." Each and every aspect of Respondent's remaining conduct falls within the protection afforded by § 271. Respondent's sale of propanil simply constitutes derivation of revenue from an act, which if performed by another without Respondent's consent would constitute contributory infringement. See § 271(d)(1).[7] Similarly, Respondent's institution of suit against Petitioners is only the enforcement of Respondent's patent rights precisely as authorized by § 281 and § 271(d)(3).

POINT II THE DECISION BY THE COURT OF APPEALS IS FULLY IN ACCORD WITH THE CONSTITUTIONAL PURPOSE AND THE CONGRESSIONAL OBJECTIVE OF THE PATENT LAWS TO ENCOURAGE INVENTION.

A. The Need for Innovation and the Patent Incentive for Encouraging Innovation Have Long Been Recognized as Desirable Public Policies for Creating New Jobs, Additional Industry, Greater Productivity, Increased Trade, and Enhanced Competition.

It is difficult to overstate the importance of ingenuity and innovation as factors in the development of a modern

[6] Directly contrary to the arguments in the Brief of the United States as Amicus Curiae, pp. 6 and 7, Amicus LES submits that Respondent's refusal to license the use of its patent except via the necessarily implied licenses to those who purchase propanil from it would *not* have constituted patent misuse under a long line of this Court's decisions (with the exception of *Mercoid* which was reversed by enactment of §271(d)), *see e.g.*, *Bement*, 186 U.S. at 90.

[7] The fact that purchasers of propanil from Respondent are impliedly licensed by operation of law to use the propanil in the patented process is an inevitable result which cannot be denied or avoided. It is inherent in any such sale. *United States* v. *Univis Lens Co.*, 316 U.S. 241 (1942); also cf., *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453 (1873) and *Aro II*. This necessarily implied licensing does not affect the protection afforded by §271.

industrial society and in the creation of jobs and benefits for the advancement of man. Referring to the constitutional authority, this Court recently summarized the value of the patent incentive in *Kewanee Oil Company* v. *Bicron Corporation*, 416 U.S. 470, 580 (1974):

> The patent laws promote this progress by offering a right of exclusion for a limited period as an incentive for inventors to risk the often enormous costs in terms of time, research, and development. The productive effort thereby fostered will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens.

It is even more important to encourage invention today than it was when the Constitution was adopted. Any doubt on that score should be dispelled by the widespread recognition increasingly given in the daily press, periodicals, government and scientific studies, and elsewhere, that policies which discourage innovation are a serious threat to the future of this nation. For example, Robert Colton of the National Science Foundation highlights the consequences of innovation lag:

> At the most basic level, less innovation means that fewer new, improved products are available to American consumers in the marketplace. But it also has broader economic effects. Without innovative breakthroughs, industry creates fewer jobs. Factories and equipment become obsolete. Productivity growth declines. And that only feeds the enervating inflationary spiral: if industry cannot turn out goods and services more efficiently, it cannot compensate for rising costs except by hiking prices.[8]

According to the Commerce Department: "All the indicators imply that the rate of U.S. innovation is measurably down." Senator Adlai Stevenson, chairman of the

[8] Newsweek, June 4, 1979, p. 59.

Senate Science, Technology and Space Subcommittee, recently concluded: "In terms of innovation as it relates to productivity and growth, the American economy is stagnant.[9] At this writing, the morning press, reporting on a conference of medical researchers, medical school leaders, drug industry and government officials at Duke University, noted that: "Scientist after scientist referred to a slump in American drug research and a lag behind European counterparts, ...[10]

Published statistics confirm the alarming decline in American innovation. According to a Stanford Research Institute analysis, during the 1950s, 82 percent of the major inventions brought to market were developed in the United States. By the late 1960s, the figure had declined to 55 percent.[11]

Between 1971, the peak year for American inventions, and 1978 the number of patents granted annually to Americans declined 21 percent from 56,000 to 44,000. During the same period, the number of United States patents granted to foreigners rose 300 percent from 8,500 to 26,000.[12] Recent reports state that research and development in the United States, as a percentage of economic output, fell 20 percent between 1968 and 1978 while increasing significantly in both West Germany and Japan.[13] Not surprisingly, the United States now lags behind most other developed countries in manufacturing-productivity growth. In the twenty years following World War II, American industry's productivity grew at an

[9] U.S. News & World Report, Nov. 12, 1979, p. 76.

[10] The Charlotte Observer, March 4, 1980.

[11] Newsweek, June 4, 1979, p. 58.

[12] United States Department of Commerce News, June 13, 1979; Commissioner of Patents and Trademarks Annual Report, Fiscal Year 1979; U.S. News & World Report, Nov. 12, 1979, p. 76.

[13] Science, Vol. 26, Nov. 16, 1979, p. 801.

annual rate of 3.3 percent, but since 1973, the rate has dropped to 1.3 percent.[14]

President Carter, in his Industral Innovation Message to the Congress on October 31, 1979, emphasized that:

> Industrial innovation—the development and commercialization of new products and processes—is an essential element of a strong and growing American economy. It helps ensure economic vitality, improved productivity, international competitiveness, job creation, and an improved quality of life for every American. Further, industrial innovation is necessary if we are to solve some of the Nation's most pressing problems—reducing inflation, providing new energy supplies and better conserving existing supplies, ensuring adequate food for the world's population, protecting the environment and our natural resources, and improving health care.

The importance of innovation was summarized in a report, "National Strategy for Technological Innovation," prepared for the Committee on Commerce, Science, and Transportation, United States Senate:

> The importance of innovation is enormous. It is a key factor in assuring national security, economic vitality, and domestic problem solving. It is essential to increasing productivity; reducing inflation and achieving full employment; meeting international economic competition; developing alternative energy sources and improved methods of conservation; solving enviromental problems; providing effective public services in cities and counties; generating the national wealth required to pay for necessary social services; and in general enhancing the quality of life in our country.[15]

[14] "The Productivity Gap," Newsweek, May 29, 1978, p. 79.

[15] Because of its scope and significance, additional portions of this report, dated October 1979, are reproduced as Attachment "A" to this brief.

We submit that the ruling of the Court of Appeals in this case serves to promote science and encourage invention. It is consistent with the basic purpose of the patent system.[16]

In the context of this case, an inventor who discovers a new use for a known composition, *i.e.*, the sole beneficial use for a nonstaple chemical, can obtain patent protection only in the form of a process patent.[17] The patent defines something which never existed before, the new process for using the nonstaple chemical. The patent incentive provides encouragement to the inventor to search for, discover, develop, and market the invention. Yet, in many instances the most practical way in which the patentee of a process invention may hope to recover his costs and some incentive reward is by manufacturing the nonstaple chemical and selling it himself, in which event, the law exacts for the purchaser an implied license to use the nonstaple in the patented process. Certainly there is

[16] The Commission on the Patent System established by President Johnson stated this to be:

> "The members of the Commission unanimously agreed that a patent system today is capable of continuing to provide an incentive to research, development, and innovation. They have discovered no practical substitute for the unique service it renders.
>
> "First, a patent system provides an incentive to invent by offering the possibility of reward to the inventor and to those who support him. This prospect encourages the expenditure of time and private risk capital in research and development efforts.
>
> "Second, and complementary to the first, a patent system stimulates the investment of additional capital needed for the further development and marketing of the invention."

Report of President's Commission, Harry Huntt Ransom, Simon H. Rifkind, Co-chairmen, Nov. 11, 1966, p. 2.

[17] This is specifically authorized in the 1952 act, 35 U.S.C. § 100(b) providing that "the term 'process' . . . includes a new use of a known . . . composition of matter or material."

nothing in the Constitution or the patent laws which says that the would-be inventor should be discouraged from creating the only beneficial use for a chemical by being burdened by having to license manufacturing competitors.

B. The Decision of the Court of Appeals is Fully Consistent with the Constitutional Purposes of the Patent Act and Does Not Perpetrate Any Harmful or Undesirable Consequences.

The framers of the Constitution recognized that the future of any great nation depends in no small part on the ability to foster and utilize scientific and technological innovations. To that end they included in the Constitution the specific grant to the Congress of the power to secure "to Authors and Inventors the exclusive Right to their respective Writings and Discoveries" in order to "promote the Progress of Science and useful Arts. . . ." (U.S. Const., Art. I, § 8, cl. 8). In exercising the full extent of its authority granted by this clause, the Congress enacted the Patent Act, including § 271.

Only last Term this Court reviewed the purposes of the federal patent system and found them to be:

> "First, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public." *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979).

The Court of Appeals' decision in this case is fully consistent with these purposes because it protects inventors of methods using unpatented nonstaples and thus

encourages other inventors and fosters similar inventions. The Court of Appeals therefore properly carried out the mandate of Congress in the Patent Act and § 271. On the other hand, the Court of Appeals has not, as Petitioners charge, construed § 271 to create a monopoly or to unlawfully extend the patent granted to Respondent.

Respondent has a limited patent on a process for selective, post-emergence weed control by application of propanil. Propanil *per se* is unpatented but has no use other than in Respondent's weed control process. To permit Petitioners to sell propanil which they know has no use apart from Respondent's process robs Respondent of its rights under the patent and conflicts with the congressional desire of granting Respondent the temporary "exclusive right" to its invention.

The Third Circuit's statement that "any incremental increase in patentee income that might result from permitting licensing schemes that would otherwise violate the antitrust laws would be unlikely to effect a patentee's initial decison to invest in innovative activity,[18] cited by Petitioners (Pt. Br. at 35), is inapposite. First, no licensing scheme that would violate the antitrust laws is involved here. Respondent has sought only the rights granted by §§ 154 and 271. Second, there is no other practical way for Respondent to achieve a meaningful reward for its invention. The persons, *i.e.*, the farmer and the aerial applicators, actually practicing the steps of the patented process are numerous, and separately licensing each of them would be difficult, if not impossible. In situations such as this, deriving a reward from the sale of the nonstaple is the only practical means by which the patentee can obtain income for its inventive efforts.

At the same time, no monopoly is granted to Respondent nor is its process patent unlawfully extended to

[18] *Mannington Mills Inc.* v. *Congoleum Industries*, ____F.2d ____, 203 U.S.P.Q. 81, 91, (3d Cir. 1979).

give it exclusive rights over propanil. Petitioners can manufacture and export propanil. So far as weed control is concerned there is no showing that propanil is the only weed controlling substance or that Respondent has a monopoly over even selective, post-emergence weed control by reason of the patent in question. Nor can it be seriously contended that Respondent has a monopoly on propanil. The only rights which Respondent has are those lawfully granted by the Patent Act, *i.e.*, the exclusive use of its process of applying propanil as a selective, post-emergence weed control agent. By rightful operation of § 271, Petitioners cannot sell propanil to farmers because at the present time propanil has no use other than in Respondent's process. It is still open, however, to the Petitioners, and the rest of the world for that matter, to develop a new use for propanil or to invent a new method for applying propanil in weed control. The very purpose of the Constitution and Congress in protecting Respondent in this case is to encourage Petitioners and others to do that very thing.

The decision below thus furthers the Constitution's purpose of the patent system in two ways, it: (1) encourages the making of inventions of the type originally made by Respondent by promising a meaningful economic reward and (2) encourages others to invent other uses for the chemical or other methods of applying it in weed control or other chemicals by excluding others from reaping the rewards rightfully belonging to Respondent. To hold otherwise would deny Respondent its lawfully obtained rights and would harm the public by discouraging invention.

C. The Consequences of Reversing the Fifth Circuit's Decision

As previously noted, the Fifth Circuit's decision not only follows the literal language of 35 U.S.C. § 271, but squarely implements the congressional policy and intent

underlying that statute. By contrast, reinstating the District Court's decision would reinstitute the uncertainties of the *Mercoid Cases* and inevitably lead to inconsistent "misuse" holdings. Additionally, the District Court's decision would mandate application of the most wooden approach to "tying" concepts—an approach, which, as Congress and this Court have recognized, is devoid of economic, practical, and legal rationality. It could also result in duplicative patent litigation at the consumer level, and in compulsory licensing of competing manufacturers, a measure which is contrary to the very nature of a patent. Most importantly, the District Court's decision would inevitably frustrate this nation's acknowledged need to stimulate technological innovation and capital expansion.

1. The District Court's Decision Would Require Compulsory Licensing and Would Pose Disincentives for Technological Progress.

Petitioners suggest that requiring Respondent to grant licenses separate from the sale of propanil would not amount to compulsory licensing (Pt. Br. at 9). However, unlicensed sellers of propanil, a nonstaple chemical, *i.e.* one having no substantial use other than in practicing the invention claimed in the patent are, by definition, contributory infringers. 35 U.S.C. § 271(c). Thus, as both the District Court and the Court of Appeals recognized, Petitioners' suggestion plainly does amount to compulsory licensing[19] and Petitioners' Brief eventually concedes as

[19] The District Court stated (191 U.S.P.Q. at 708):

> The effect of this order compels the patent owner marketing unpatented nonstaple components of his combination patent to first offer licenses to others marketing that component before it seeks equitable relief for contributory infringement. [A combination is not involved in the instant case.]

(footnote continues)

much (*Id.* at 29). Because they would obviously be inconsistent with the "right to exclude" expressly afforded inventors by § 154 of the Patent Act and would, in any event, create an administrative and judicial nightmare, various proposals aimed at compulsory licensing have been rejected repeatedly for the past two centuries.[20] Departures from that policy have been made only in the most extraordinary circumstances and in the most limited manner. Congress has adopted compulsory licensing only in those instances where a vital national interest is directly at stake, for example, where the patented invention is in the field of atomic energy or pollution

(footnote continued)

As the Fifth Circuit observed (599 F.2d at 704 n. 27):

> Defendants would have us impose a *requirement* that a patentee like Rohm & Haas offer erstwhile competitors licenses, available to all comers at a reasonable royalty rate.
>
> * * *
>
> We decline to rule that a patentee *must* license under [§ 271] (d)(2) in order to use his rights under (d)(1) and (d)(3). A general licensing obligation is foreign to a statutory scheme in which patentees are free to suppress entirely or reserve for themselves their inventions.

[20] The first attempt to enact legislation requiring compulsory licensing of patents appeared in the Senate version of the original Patent Act of 1790 (1 Stat. 109). The Senate's provision, however, was deleted in conference. See E. Penrose, *The Economics of the International Patent System* at 176 (1951); Compulsory Licensing of Patents Under Some Non-American Systems, Staff of Subcomm. on Patents, Trademarks and Copyrights of the Senate Comm. on the Judiciary, 85th Cong., 2d Sess. 1, 2 (Comm. Print 1959). From 1911 to 1950, 25 bills, all of which would have required compulsory licensing, were introduced in the House and Senate. All were rejected. See Staff of Senate of Subcomm. on Patents, Trademarks and Copyrights of the Senate Comm. on the Judiciary, 85th Cong., 2d Sess., Compulsory Licensing of Patents—a Legislative History (Comm. Print 1958) (summarizing these bills); *see also* Arnold and Goldstein "Compulsory Licensing: 'Uncentive' for Invention" 7 *Patent L. Rev.* 113, 114, App. at 155-61 (1975).

control, and only then with sharply limiting restrictions carefully drafted to be used only in unlikely circumstances.[21] Similarly, courts have resorted to compulsory licensing, as opposed to adjudications of patent invalidity or unenforceability,[22] only as an extraordinary remedy between particular litigants on highly unusual facts, for example to dispel the effects of *per se* antitrust violations[23] or blatant patent misuse or to reach some balance between a patentee's legitimate rights and an extraordinary public interest in an otherwise totally impractical situation.[24]

[21] *See* 42 U.S.C. § 1857 (h)(6), 2183. Other examples appear in 28 U.S.C. § 1498 (permitting use of a patented invention in manufacturing by or for the United States) and 7 U.S.C. § 2404 (licensing of certain plant variety patents). No such licenses are known by Amicus to have been granted.

[22] Petitioners' attempt to equate mandatory licensing with judicial invalidation of a patent for fraudulent procurement (Pt. Br. at 29) is without merit. The leading "fraud" cases decided by this Court are *Precision Instr. Mfg. Co.* v. *Auto. Maint. Mach. Co.*, 324 U.S. 806 (1945), *Hartford-Empire Co.* v. *United States*, 323 U.S. 386 (1944), *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U.S. 238 (1940) and *Keystone Driller Co.* v. *General Excavator Co.*, 290 U.S. 240 (1933). These cases are not "compulsory licensing" cases; they simply stand for the fact that the patents respectively in question should never have been granted in the first place, much less licensed.

[23] *United States* v. *Glaxo Group Ltd.*, 410 U.S. 52, 58-59 (1973); *Besser Mfg. Co.* v. *United States*, 343 U.S. 444 (1952); *United States* v. *United States Gypsum Co.*, 340 U.S. 76, 88 (1950); *Ansul Co.* v. *Uniroyal, Inc.*, 448 F.2d 872 (2d. Cir. 1971), *cert. denied*, 404 U.S. 1018 (1972) (price fixing); *United States* v. *Imperial Chem. Inds., Inc.*, 105 F. Supp. 215 (S. D. N.Y. 1952) (antitrust violations); *Allied Res. Prods., Inc.* v. *Heatbath Corp.*, 300 F. Supp. 656 (N.D. Ill. 1969) (patent misuse); *compare United States* v. *National Lead Co.*, 332 U.S. 319 (1947) (noting, despite antitrust violation, that compulsory licensing is not an appropriate remedy "on the facts before us").

[24] *Nerney* v. *N.Y., N.H. & H.R. Co.*, 68 F.2d 734 (2d Cir. 1934) (requiring license to be granted to infringing railroad due to public interest and impracticability in enforcing complete ban at car-interchange points); *City of Milwaukee* v. *Activated*

(footnote continues)

Petitioners' suggestion would necessarily stand § 154 and the existing policy squarely on its head. Instead of being merely a rarely used *remedy*, compulsory licensing—or the failure to abide it—would itself become the *source* of the violation or misuse.

The impracticalities and inefficiencies associated with any requirement for compulsory licensing are obvious. First, compulsory licensing would inevitably mandate the creation of a substantial administrative mechanism, either in the courts or otherwise,[25] to set royalty rates, rates

(footnote continued)

Sludge, Inc., 69 F.2d 577 (7th Cir.), *cert. denied*, 293 U.S. 576 (1934) (requiring municipality's infringing sewage plant to be licensed in order to prevent raw sewage from being dumped into Lake Michigan); *Vitamin Technologist* v. *Wisconsin Alumni Res. Found.*, 145 F.2d 941 (9th Cir. 1945) (refusal to grant injunction aginst infringement of patent which would provide a cheap and plentiful source of Vitamin D); *Hoe* v. *Kahler*, 12 F. 111 (C.C., S.D. N.Y. 1882), *reh. denied*, 25 F. 271 (C.C., S.D. N.Y. 1885), *appeal dismissed on stipulation of counsel*, 131 U.S. 439 (1889) (requiring, in effect, that a royalty free license be granted to a newspaper which was an innocent, secondary infringer and whose interruption would cause public detriment); *Foster* v. *American Mach. & Foundry*, 492 F.2d 1317 (2d Cir.), *cert. denied*, 114 U.S. 1114 (1974) (refusing injunction where patentee refused to sell and where infringer had made massive outlays). Compulsory licensing is still a rare exception to the general and very basic rule that a patentee may refuse to license his patent (See cases cited, *supra* at 3 and 4; *compare Extractol Process* v. *Hiram Walker & Sons*, 153 F.2d 264, 266, 268 (7th Cir. 1946).

[25] Courts ordering compulsory licensing would find themselves retaining jurisdiction of otherwise completed cases in order periodically to redetermine the reasonableness of royalty rates as circumstances change through the life of a compulsorily licensed patent. Compulsory royalty rates would be the subject of endless litigation.

which might have to be periodically adjusted depending, for example, upon price and the number of entrants in the field. Thus, instead of employing the economic forces of the marketplace quickly and efficiently to evaluate the worth of an invention, the compulsory system would employ a somehow omniscient team of government administrators to establish (and periodically reestablish)—at exorbitant and wholly unnecessary expense to the public—what might be a "reasonable" price for each particular license, a determination which would depend not only on the number of licensees in question but upon the terms they might seek: the degree of exclusivity, the territory, the field, and, of course, the value of the invention in each respective context. The difficulties associated with that approach are simply a matter of public record. *E.g., Georgia-Pacific Corp.* v. *United States Plywood-Champion Papers, Inc.*, 318 F.Supp. 1116 (S.D. N.Y. 1970), *modified*, 446 F.2d 295 (2d Cir.), *cert. denied*, 404 U.S. 870 (1971); *Faulkner* v. *Gibbs*, 199 F.2d 635, 639-40 (9th Cir. 1952); *cf. Panduit Corp.* v. *Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1157-64 (6th Cir. 1978); *Trio Process Corp.* v. *L. Goldstein's Sons, Inc.*, 533 F.2d 126, 129-30 (3d Cir. 1975). The delays, distortions, and inefficiencies inherent in that system would exceed even those inherent in any system of governmental price controls.

Second, the availability of a compelled license at rates somehow established by government administrators with respect to all inventions would create an obvious disincentive to engage in research and development. The lazy human tendency to 'replicate not innovate' is a real-life problem in today's world.[26] The knowledge that a compulsory license could be obtained would be a further

[26] See: "Some Tales of 'Copycat' Products Are Best Left Untold, Sterling Drug Learns" The Wall Street Journal, March 11, 1980, p. 16; reproduced as Attachment "B" hereto.

'security blanket' to discourage people from risking money in their own research and development.

To the would-be copyist the cost of procuring a license, at whatever rate might be established by the government, can in no way be equated with the threat of total exclusion.[27] Moreover, there plainly is no incentive for research and development if the researcher knows that whatever market his invention creates can be saturated by free riders unwilling to undertake the risks and financial burdens inherently associated with the development and perfection of that invention.

The inevitable point is that compulsory licensing would not comport with the constitutional object of promoting the useful arts and sciences. U.S. Const. Art. I, § 8. Moreover, given the increasingly uncompetitive posture of the United States in the worldwide market and its acknowledged need for capital expansion, compulsory licensing—which, by any other name is the core of Petitioners' suggestion—is something this country does not need.

2. Respondent Has Not Misused its Patent

Petitioners' misuse argument is a series of circular fictions, epitomized by the following statement:

> The misuse being perpetrated by Rohm and Haas is the conditioning of a license under its method patent on the purchase of propanil from Rohm and Haas. If Rohm and Haas would grant royalty-bearing licenses separately from the purchase of propanil, there would be no misuse. Such a requirement is not compulsory licensing. By its present marketing scheme, Rohm and Haas has chosen to grant licenses, but only by use of a tying arrangement. (Pt. Br. at 9)

[27] The incentive to "design around" a patent is one of the significant ways in which the patent system promotes advances in the art.

Respondent's "scheme" consists merely of selling propanil to anyone who wants it. The licenses it has supposedly "chosen" to grant to farmers are unavoidable. They are implied by operation of law in favor of purchasers in this case because propanil has no use other than in practicing the invention claimed in the patent.[28] Indeed, Petitioners expressly admit this. (Pt. Br. at 5).

Though inflammatory, Petitioner's use of the term "tying" does not withstand rational analysis. In the classic tying arrangement the linkage between the commodities which are illegally marketed together, which could and should be marketed separately, is ultimately created by the illegal actor. Here, *by operation of law, not by the acts of Respondent*, a license to use the patented process necessarily and inevitably accompanies the sale of propanil. As Petitioner's admit (Pt. Br. at 5) the licenses arise not because Respondent "chooses" to "grant" them, but because the law impresses them upon the nonstaple chemical which patentee Respondent markets.

Respondent has simply done what the law permits. It licenses those whom the law of implied licensing automatically licenses and excludes only those whom the law of infringement and contributory infringement permit to be excluded. If Respondent's "scheme" effects a "tie" at all, that tie follows as an inevitable result of 35 U.S. §§ 271(c), (d)(1), and, in any event, is not the kind of tie which should be condemned. The system adopted by Respondent is the only efficient, economic and reasonably convenient system by which a patent disclosing and claiming a new use of a nonstaple product can be meaningfully enforced by a patent owner who also wishes to sell material useful only in the patented process.

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[28] *United States* v. *Univis Lens Co.*, 316 U.S. 241, 250 (1942); also *cf.*, *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453 (1873) and *Aro II*.

a. There is No Illegal Tying Arrangement

We submit that, in enacting § 271, Congress recognized, as this Court has elsewhere recognized,[29] that "tying" arrangements have at least some practical limitations and that not all licensing arrangements which might, through dogged literalism, be labelled a "tie" should automatically be condemned.[30] "Tying" purchases of a nonstaple product having no use other than that claimed in a patent, to use licenses under the patent implied by law in favor of purchasers presents none of the evils associated with typical tying arrangements. As this Court said in *Times-Picayune Pub. Co.* v. *United States*, 345 U.S. 594, 614 (1953):

> "The common core of the adjudicated unlawful tying arrangements is the forced purchase of a second distinct commodity with the desired purchase of a dominant 'tying' product, resulting in economic harm to competition in the 'tyed' market."

None of those "core" elements are present here. First, a use license which the law freely implies in favor of the purchaser of a nonstaple product is at most a very illusory

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[29] *See Times-Picayune Pub. Co.* v. *United States*, 345 U.S. 594 (1953); *United States* v. *Jerrold Electronics*, 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961).

[30] This Court has recently cautioned that, in antitrust matters: "Literalness is overly simplistic and often overbroad," *Broadcast Music, Inc.* v. *C.B.S., Inc.*, 441 U.S. 1, 99 S.Ct. 1551, 1557 (1979), and that "departure from the rule-of-reason standard must be based upon demonstrable economic effect rather than ... upon formalistic line drawing." *Continental T.V., Inc.* v. *GTE Sylvania, Inc.*, 433 U.S. 36, 58-59 (1977), overruling *United States* v. *Arnold, Schwinn & Co.*, 388 U.S. 365 (1967). The flexible approach adopted by this Court in *GTE Sylvania* and again in *Broadcast Music* is obviously no less compelling when a party resorts to antitrust rationale in an attempt to establish patent misuse. *Cf. Automatic Radio Mfg. Co.* v. *Hazleton Res., Inc.*, 339 U.S. 827, 834 (1950).

"tying" product. Indeed, the patentee—who benefits not at all from the law's creation of that license—could avoid "granting" it only by ceasing to sell propanil, an anomalous result which would benefit no one.

Second, in the case of a nonstaple product and a use license freely implied by law in favor of purchasers of that product, there is no "second distinct commodity." Though legally distinguishable for patentability purposes, a nonstaple product and its sole meaningful use are, as a practical matter, simply inseparable. *Cf., Times-Picayune Pub. Co., supra, United States* v. *Jerrold Electronics, Inc.*, 187 F.Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961); *Washington Gas Light Co.* v. *Virginia Electric & Power Co.*, 438 F.2d 248 (4th Cir. 1971); *International Mfg. Co.* v. *Landon, Inc.*, 336 F.2d 723 (9th Cir. 1964), *cert. denied sub nom, Jacuzzi Bros., Inc.* v. *Landon, Inc.*, 379 U.S. 988 (1965); *Kugler* v. *Aamco Auto. Transmissions, Inc.*, 337 F.Supp. 872 (D. Minn. 1971), *aff'd*, 460 F.2d 1214 (8th Cir. 1972); *compare Fortner Enterprises, Inc.* v. *United States Steel Corp.*, 394 U.S. 495 (1969).

Third, and most important, in the present instance, there can be no harm, economic or otherwise, to the market for the "tyed" product. Propanil is a nonstaple product which, by definition, has no practical use—and therefore no market—other than as disclosed in the patent in suit. Contrary to Petitioners' allegation (Pt. Br. at 9), that is not the equivalent of a patent on propanil itself. Nothing in Respondent's marketing "scheme" or in the law of infringement (contributory or otherwise) prevents anyone, including Petitioners, from making propanil, exporting it, experimenting with it, or developing new uses for it. The applicable law—and Respondent's "scheme"—simply prevent competitors from destroying the market created by industry of Respondent itself.

b. The Practical Justifications for Repondent's Conduct

Aside from the absence of any of the elements constituting the "common core" of illegality regarding typical tying arrangements, Respondent's conduct regarding its patent is fully justified by practicality and business necessity. "Use" patents are explicitly sanctioned by the patent law.[31] However, the District Court's opinion—and Petitioners' argument—would render the "exclusive rights" of the patentee with respect to a use patent highly illusory.

As Petitioners concede (Pt. Br. at 5), a person having a patent on a method of using an otherwise unusable composition and who sells that nonstaple composition necessarily grants the purchaser an implied license by operation of law. If that implied license is somehow viewed separately from the use of the composition in the only way it can be used—as claimed in the patent—then the patentee is placed in a severe dilemma. If he chooses to sell the nonstaple without licensing competitors under his patent, he may, pursuant to the District Court's analysis, be charged with patent misuse. And if he does not sell the nonstaple, he will be unable to recoup the research and development costs he bore in creating the only use the nonstaple has. Under either scenario, he will obviously have no incentive for further innovation and development.

Notwithstanding the dilemma their argument would create, Petitioners suggest five ways in which Respondent can "legitimately" exploit its method patent (Pt. Br. at 30). Those means are largely illusory. In fact, the only

[31] Under 35 U.S.C. §§ 100 (b), 101, a patent may be obtained for "a new use of a known . . . composition of matter . . . ." Once obtained, the patent can be either licensed or employed "to exclude others from . . . the invention throughout the United States. . . ." 35 U.S.C. § 154; *cf.* 35 U.S.C. § 271 (a), (d).

means suggested by Petitioners by which Respondent can exploit its patent—aside from licensing all competition at whatever may be a "reasonable royalty"—is to police use at the consumer level, either through licensing of farmers and operators of spraying equipment or through Respondent itself acquiring and operating rice farms or spraying equipment.

We respectfully submit that no conceivable purpose can be served by requiring a chemical company, as a condition to exploiting a chemical use patent, to operate a rice farm or to go into the crop spraying business.[32] We also submit that the massive policing and other practical problems necessarily attending those suggestions render them a substantial nullity. Under Petitioners' rationale, Respondent would be compelled either to license or to sue every farmer in this country who employed propanil in the manner claimed in the patent. The result, of course, would either be circuitous, duplicative and endless litigation by a manufacturer against his customers or the practical inability of a manufacturer to recoup the research and development costs he necessarily bore in developing and protecting his invention from exploitation by unlicensed users.

CONCLUSION

For the reasons set forth, LES believes that, in the proper and lawful exercise of his patent rights, the owner of a patent claiming a method of using a nonstaple

[32] As a matter of logic, Petitioners' "alternatives" necessarily concede that Respondent would not be guilty of unlawful "tying" if it: (a) entered the crop spraying or rice farm business but (b) refused to license competing sprayers or farmers. In other words, Petitioners apparently see no difficulty with what spraying concerns or rice farmers would undoubtedly characterize as unjustified projection of economic power into their markets. Petitioners simply do not want to see a chemical company, acting as a chemical company, meaningfully exploit a chemical use patent.

composition of matter having no substantial use other than claimed in the patent, should be able to sell the composition for its only known use without being compelled to license his competitors. Therefore, we urge the Court to affirm the decision of the Court of Appeals as being consistent with both the statute and constitutionally based public policy.

Respectfully submitted,

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CERTIFICATE OF SERVICE

It is hereby certified, as required by Rules 33 and 42 of this Court, that true copies of the foregoing MOTION FOR LEAVE TO FILE BRIEF AND BRIEF FOR THE LICENSING EXECUTIVES SOCIETY (U.S.A.), INC., AS *AMICUS CURIAE*, with Attachment, were served by first class mail, adequate postage affixed, upon

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on this 21st day of March, 1980.

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Counsel for The Licensing
Executives Society (U.S.A.), Inc.,
as Amicus Curiae

ATTACHMENT A

96th Congress
1st Session

COMMITTEE PRINT

NATIONAL STRATEGY FOR TECHNOLOGICAL INNOVATION

PREPARED AT THE REQUEST OF

HON. HOWARD W. CANNON, *Chairman*

COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

OCTOBER 1979

Printed for the use of the
Committee on Commerce, Science, and Transportation

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1979

52-489

LETTER OF TRANSMITTAL

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION,
October 15, 1979.

DEAR COLLEAGUE: The Committee on Commerce, Science, and Transportation has conducted oversight hearings on the state of U.S. industrial technology and innovation, and has a continuing interest in national policy with respect to innovation. The Committee is concerned with the need to stimulate technological and industrial innovation to increase productivity, strengthen America's competitive position in world markets, and contribute to the overall vitality of the U.S. economy.

As part of the Committee's interest in examining various legislative proposals dealing with innovation, Senators Ernest F. Hollings, Adlai E. Stevenson, and I requested that a study conducted by Mr. Ellis R. Mottur, Guest Scholar at the Woodrow Wilson International Center for Scholars, be made available to the Committee. This document contains the report prepared by Mr. Mottur, including the outlines of an omnibus bill.

Although this report has not been considered or endorsed by the Committee or any of its members, I believe it will be of interest to many persons in Government, industry, labor, academia, and the general public. To insure its general availability, I have asked that this document be published as a Committee print.

Sincerely,

HOWARD W. CANNON,
Chairman.

SUMMARY AND CONCLUSION

SUMMARY

Technology innovation is the key to conquering our present calamities and discovering future treasures. Without it, we are forever consigned to carving up the same old pie in smaller and smaller slivers. With it, we can expand the real wealth of the pie to provide larger portions for all. This report sets forth a national strategy for stimulating technological innovation.

It establishes the enormous importance of innovation to our economy and national well-being, and underscores the fact that U.S. innovation is lagging compared to foreign competitors and our inherent potential. It delineates the elements necessary to successful innovation and describes the reasons why it is currently lagging. The report then enunciates the policies needed to stimulate innovation, and sets forth specific legislative proposals to implement them. Each section of the report is summarized below.

SIGNIFICANCE OF INNOVATION

The importance of innovation is enormous. It is a key factor in assuring national security, economic vitality, and domestic problem solving. It is essential to increasing productivity; reducing inflation and achieving full employment; meeting international economic competition; developing alternative energy sources and improved methods of conservation; solving environmental problems; providing effective public services in cities and counties; generating the national wealth required to pay for necessary social services; and in general enhancing the quality of life in our country.

U.S. INNOVATION LAGGING

Despite America's impressive past record, innovation in the United States is currently lagging as compared with its challenges, competitors, and potential. Thus, in recent years U.S. capital investment in innovative activities has fallen short; for example, the capital obtained from public offerings by small firms dropped from $1.46 billion in 1969 to $16.2 million in 1975! Investment in R. & D. has stagnated: Federal funds for R. & D. in 1979 were 16 percent less than what they had been 12 years earlier; at the same time that Japan and West Germany recorded substantial growth in the proportion of their GNP going to R. & D. Similiarly, the proportion of scientists and engineers in the U.S. population has dropped since 1969, while it has shown an increase in most other advanced nations. America has shown a decline in its patent balance of 47 percent in recent years, and currently has a negative balance with Japan and West Germany. For the past 20 years U.S. productivity growth has been substantially below that of its

foreign competitors: between 1960 and 1976, Japanese productivity gained 5 times more rapidly than America's; and during the most recent quarter of 1979, U.S. productivity fell more precipitously than at any time since we began keeping records in 1947. It is not surprising, therefore, that—even in technology-intensive items—we now have a negative trade balance with Japan; and the traditional U.S. surplus in manufactured goods was transformed into a $3 billion deficit in the first quarter of last year. Along with these distressing economic indicators, stands our failure to produce the innovations necessary to meet our compelling national needs in fields such as energy, environment, and transportation.

NATURE OF THE INNOVATIVE PROCESS

To recognize the causes and devise remedies for our recent decline, we must first elucidate the nature of innovation and the elements required for its success. Innovation is more than an invention or technological development. It is the introduction, sale, or use of a new technology—whether product, process, or system—in the consumer or industrial marketplace or public arena. Thus, innovation encompasses the entire spectrum of research, development, invention, engineering, finance, marketing, production, management, and sales. For an innovation to succeed, it must embody the following elements:

(1) The imaginative matching of potential technologies with economic and social needs and opportunities;

(2) Strong leadership on the part of an individual who makes the sustained commitment to persist in pushing the innovation forward:

(3) The possibility of tapping or stimulating sufficient market demand so that the innovation can reach the scale or volume necessary for success;

(4) Individuals or firms, with access to sufficient capital, who are willing and able to take the risks and invest the time, money, and human energy to shape the potential technology to meet the particular market demand:

(5) A combination of potential rewards and risks, along with an expected probability of success, which is attractive enough to justify investment of the necessary capital, when compared with alternative uses to which it could be put:

(6) High caliber management skills to move the innovation successfully through engineering, production, marketing, distribution, and sale; and

(7) Sufficient time and continuing availability of resources to allow the innovation to prove itself out before the final reckoning of success or failure.

To assure that the innovative well does not run dry, the foregoing elements in the innovative process must be solidly grounded in:

(8) An ever-expanding reservoir of scientific knowledge, arising from the unfettered course of basic research and the directed currents of applied research aimed at the needs of the society at large, as well as the special requirements of particular industries;

(9) An abundant supply of highly qualified scientists, engineers, and managers capable of moving the innovations ahead, with the intellectual flexibility and caliber to cope with constant advances in science and technology and a high degree of career mobility to redeploy their talents among academic, industry, and government organizations to meet shifting problems and priorities; and

(10) Sufficient high quality facilities, equipment, and instrumentation for conducting the necessary research, development, and engineering.

CAUSES OF RECENT DECLINE

The recent decline in U.S. innovation is caused by certain conditions prevalent in the overall economy and by a number of shortcomings within the innovative system itself. The principal external conditions which serve to impede innovation include: (a) the high rate of inflation which militates against the kind of long term, risky investments which are required for innovation; (b) the low rate of capital formation in our economy which limits the amount of capital available for investment in innovative ventures, (c) the burgeoning of Government regulations in recent years that slow the innovative process and focus management and technical talent on compliance rather than creation; and (d) the high rate of unemployment which reduces consumer purchasing power and thereby limits the potential consumer markets for innovation. The internal shortcomings in the innovative system include the following elements:

(1) Basic research—which can thrive only in an atmosphere of free inquiry and which requires long-term stability and continuity of support—is too much influenced by the inroads of inflation, the fluctuations of the annual appropriations process, and constantly shifting political currents and fads;

(2) Insufficient educational emphasis on pragmatic problem-solving for those engineers who will be working in industry; and inadequate continuing education and career planning, flexibility, and mobilty for scientists and engineers in general;

(3) Inadequate facilities, equipment, and instrumentation for university-based R. & D., along with difficulties of financing plant and equipment for small business technology firms;

(4) A deficient patent system which: (a) Offers inadequate incentives to induce the risks necessary to bring innovations into the marketplace; (b) provides insufficient stimulus to match potential technologies with economic and social needs and opportunities; (c) contains too many Government held patents which are rarely commercialized; (d) is too narrow in scope to reflect the latest advances in science and technology; (e) maintains an antiquated operation that does not provide timely or legally reliable patents; (f) results in excessive patent litigation that is time-consuming, costly, and riddled with inconsistencies and uncertainties; and (g) sometimes even serves to inhibit innovation;

(5) Not enough applied research on generic problems common to particular industries or industrial processes, such as the steel industry or computer-aided manufacturing;

(6) A lack of institutions to stimulate the design, development, and demonstration of major systems involving advanced technologies in priority national areas such as alternative energy sources, energy conservation, automated mass transit, pollution controls, and toxic waste disposal;

(7) The inability to generate strong, sustained large-scale market demand for public technology systems;

(8) Inadequate sources of venture capital and insufficient incentives and aids to small business technology firms in carrying out innovation and competing with larger established enterprises, despite the overwhelming evidence of small business' disproportionately large contribution to innovation in America;

(9) Lack of planning and provisions to aid communities and workers in averting or adjusting to major economic dislocations due to technological innovation;

(10) Insufficient technical and financial aid to small-scale, community technology projects, despite the spreading interest in this approach throughout the country and the relatively small Federal investment that would be entailed; and

(11) No central, high-level focal point for guiding and coordinating the innovation policies and programs of the Federal Government.

NATIONAL STRATEGY

Solutions to the external, macroeconomic impediments to innovation—such as inflation and inadequate capital formation—lie beyond the scope of this study. Similarly, the inhibiting effect of excessive regulation requires a major overhaul of the regulatory structure which encompasses a far wider range of considerations than that of the impact on innovation; accordingly, this issue deserves separate treatment and probably requires major legislation of its own.

The specific recommendations of this report are devoted entirely to removing the internal impediments to innovation or—stated more positively—to strengthening the innovative infrastructure and incentive system. They are designed primarily to impel the private sector to create the innovations of which it alone is capable: by shoring up market demand, and providing a panapoly of incentives to stimulate corporate and individual commitment to innovative action.

But although it is the private sector which ultimately must produce the innovations, it is government action—or inaction—which shapes the framework of institutions, laws, regulations, and incentives which, in the final analysis, serves to stifle or to spur innovation.

In designing a strategy whereby Government can stimulate innovation in the private sector, we must recognize at the outset that there are no quick fixes or simple prescriptions to follow. Since innovation encompasses the full spectrum of activities from basic research through development, invention, additional engineering, finance, production, marketing, distribution, and use in society—any strategy that will prove effective must impact on key elements throughout the entire process. Otherwise isolated improvements at particular points in the system may result in little or no overall effect on innovation.

CONCLUSION

As stated at the outset, innovation is the key to conquering our present calamities and discovering future treasures. From Thomas Jefferson's inventions at Monticello to the astronauts' landing on the Moon, innovation has always been an integral aspect of the American scene, imparting a powerful impetus to our prosperity and way of life.

Only in the last decade have we begun to lag, as others have accelerated their competition and experimented with new institutional arrangements for fostering innovation. But our underlying innovative capabilities remain solid and strong. Our scientists and engineers represent a magnificent resource of creative ability. Our entrepreneurs and business managers are as enterprising and imaginative as ever. The problem lies not with our people, but with our policies and procedures. The innovative infrastructure has become too bureaucratical, and the economic system is not sending out the sort of signals calculated to encourage investment in the future.

Through the proposed legislation, we cannot expect to transform the economic climate overnight. But we can refashion the infrastructure so that it spurs rather than stifles innovation. Because of its many facets and interrelations, the proposed bill may seem extremely complicated. But its central message is clear and simple:

(1) Innovation can come only from the private sector; the Government's role is to stimulate not supplant private initiatives.

(2) Innovation principally responds to market demands. The Nation's pressing needs for improved public technology systems in such fields as energy, transportation, and waste recycling can be met only through the aggregation of sufficient market demand to elicit the requisite technology. The Government's role is to provide tehnical assistance and matching funds to augment local market demand and to aid in the development and demonstration of advanced technology systems which would not otherwise be launched. The Government must also use its extensive procurement power to stimulate private market demand for desirable innovations in such fields as solar home heating and cooling.

(3) Even more important, the Government should stimulate a vast new marketplace of innovative ideas by reshaping the patent system to expand its scope and force the public auction of innovative ideas when they are not being effectively pursued. Combined with the computerization of the Patent Office and a special innovation tax of only 10 percent on the sale of patents (in lieu of all other taxes), these measures will enable patents to achieve their full potential and become the principal propulsive force for innovation in our economy.

(4) Small business technology firms must also be empowered to realize their full potential in the innovative process through greater access to venture capital and Federal procurement contracts; technical, managerial, and regulatory assistance; and tax incentives to impel them to take the risks necessary to prove innovations out.

(5) Larger technology firms need to be stimulated to make the necessary investments through accelerated depreciation of the facilities and equipment used in innovation.

(6) Finally, the growing grassroots movement for the appropriate use of small-scale, community-based technology should be aided by matching Federal funds and technical assistance; and communities and workers who might be adversely affected by innovation should be aided by community and worker adjustment programs.

In short, innovation only happens when someone puts himself on the line to make it happen. This inevitably entails risks. Few will take such risks unless there is promise of ample market demand and sufficient incentives to make the risks appear worth taking. The policies and programs set forth in this report are aimed at stimulating individuals throughout the private sector to take such risks.

To accomplish this purpose, the model legislation includes a number of new institutions and policy mechanism. Admittedly it is not very popular at present to propose the establishment of new institutions. But it is only by imaginative innovation in the institutional infrastructure itself, that we can unleash the floodgates of innovation throughout our economy and society at large.

It is hoped that this report, the body of which is presented below, will contribute to informed public debate on these issues.

PART I—ANALYSIS

Significance of Technological Innovation

In the midst of the energy crisis, double digit inflation, the deepening recession, and the President's "crisis of confidence," it may be asked why should one worry about innovation? Aren't there enough more pressing problems to contend with at this time?

But it is the very presence of those other problems which underscores and lends urgency to the innovation issue. For if we had paid sufficient attention to innovation in the past, we wouldn't be in such difficult straits today. If, for example, after the Second World War we had accorded the same priority to solar energy research that we did to nuclear power—with the same level of financial investment and technical talent—who could doubt that we would be in a position to meet a significant proportion of our energy needs today through solar power? Yet as late as 1969, the total solar research budget of the National Science Foundation was under $1 million, and efforts by the Congress to raise that amount were met with impoundments by the President.

Similarly, in the mid-1960's, a report commissioned by the President's science adviser forecast a major energy shortage in the future, but the Nation's attention was on Vietnam and the Great Society programs, and no one had time to plan for the problems of the future.

And even after the shock of the Arab oil embargo in 1973, when the handwriting on the wall was clear for all who had eyes to see, there was no mobilizing of the Nation's R. & D. resources to advance alternative energy sources, nor any marshalling of political machinery to promote massive conservation of energy.

Moreover, the overriding need for public transportation systems was apparent to those who forecast energy supply and demand as early as the mid-1960's, yet transit R. & D. has never received the all-out national commitment of resources which was required; and subsidies for roadbuilding continued in high gear, while matching funds for mass transit were always suffering from ignition problems and stalling.

So while steps to strengthen the Nation's innovation system may not lead to immediate solution of our current problems, they are essential to help avert similar problems in the future. It should be recognized that the initial thrusts toward innovation must oftentimes be taken before the economics are established as favorable for the new technology. Thus, in the past it had frequently been asserted that solar power and coal liquefication or gasification are not competitive with oil and, therefore, we shouldn't proceed with them. But it is only through continuing R. & D. and innovation that we can make these alternatives competitive in the future.

Ideally, R. & D. programs should be initiated long before their results are required. They should not have to be launched in reaction to present problems (as with the current synfuel proposal), but rather in anticipation of future problems. Thus, they should be started early enough so that the results are ready by the time the needs are upon us. Innovation is a time-consuming process which demands foresight and courage to commit resources before the final balance sheets can be drawn.

In effect, innovation is the cutting edge of our trajectory into the future. As planetary probes explore the reaches of outer space, so innovative technologies extend our reach into the future and create new options for shaping life in the world of tomorrow.

The impact of innovation—or the lack thereof—on our social-economic system is both profound and pervasive. Thus, "advances in knowledge have been the biggest single factor in economic growth and productivity gains in the United States over the past four decades." Moreover, "The rate of return on investments in R. & D. is generally high * * *. Private rates of return for innovations (are) generally in the 25-percent to 30-percent range * * * (and) public or social rates of return have been calculated to be * * * over 50 percent * * *. High-technology, R. & D. intensive industries have made an especially strong contribution to the economy * * *. These industries have on the average increased output, productivity, and employment several times as fast as low-technology industries, while raising their prices much less." [1]

In the words of the Comptroller General of the United States, the Honorable Elmer Staats: "technological innovation was responsible for 45 percent of the Nation's economic growth from 1929 to 1969. When high and low technology industries are compared, high technology firms have productivity rates twice as high, real growth rates three times as great, one-sixth of the annual price increases, and nine times the employment growth." [2]

Technological innovation, then, is clearly essential to increasing productivity and to the continuing creation of new products and industries. Its impact on inflation is equally great; indeed, there can be no lasting solution to the problem of inflation without a significant upsurge in innovation. For without innovation, productivity cannot be significantly improved, and without such an improvement in productivity, inflation will continue to run rampant regardless of palliatives like the wage-price guidelines. Thus, while steps to enhance innovation may have little immediate impact on inflation, they are essential in any sustained, longrun solution to the problem.

On the whole, innovation also contributes to the generation of jobs. It is true, of course, that specific innovations sometimes eliminate the need for certain jobs and result in increased unemployment in particular localities. But the overall impact of innovation is to generate new products, industries, and jobs. Moreover, the effect of innovation on

[1] American Association for the Advancement of Science, "Research and Development, AAAS Report III. R. & D. in the Federal Budget: Fiscal year 1979. R. & D., Industry, and the Economy." Prepared by Willis H. Shapley and Don I. Phillips, Washington, D.C., 1978, pp. 77–78.

[2] National Academy of Sciences, "Technological Innovation and the U.S. Economy." Washington, D.C., Nov. 14, 1978, p. 47.

productivity also helps generate jobs: According to Prof. Richard R. Nelson of Yale University, "More rapid technical advance and productivity growth, far from being a threat to employment, would facilitate a reduction in unemployment * * *. The proximate source of today's high unemployment is restrictive Government policies. If more rapid productivity growth can facilitate better control of inflationary pressures, governments will be able to relax their restraints. Far from being a threat to employment, more rapid productivity growth may be a prerequistite for a return to higher levels of employment." [3]

Furthermore, a study by the MIT Development Foundation showed that the average compounded annual growth in jobs for a sample of young high-technology companies, from 1969 to 1974, was 41 percent; whereas a sample of mature companies over the same period showed less than 1 percent growth in jobs. The study, which contrasted job growth for mature companies with innovative companies and with young high-technology companies, showed that:

> During the 5-year period the six mature companies with combined sales of $36 billion in 1974 experienced a net gain of only 25,000 jobs, whereas the five young, high-technology companies with combined sales of only $857 million had a net increase in employment of almost 35,000 jobs. The five innovative companies with combined sales of $21 billion during the same period created 106,000 net jobs.[4]

Innovation is also central to the United States' international economic competitive position.

> The U.S. trade balance for R. & D. intensive manufactured products has been positive and rising since 1960: the 1976 balance was five times that of 1960 and two and a half times the 1970 level.[5]

Thus,

> the trade balance for research and development-intensive manufactured products * * * is now over $28 billion. The trade balance for nonresearch and development-intensive products is down from a breakeven level in 1960 to a $16 billion deficit.[6]
>
> Clearly the technology-intensive product group has been responsible for yielding surpluses and largely covering deficits in trade from specific non-R. & D.-intensive product groups * * *. Its importance in maintaining an overall favorable trade balance is unquestionable.[7]

Thus it is innovation-engendered technology which has made for a favorable trade balance in recent decades, and which is essential to regaining a favorable balance in the future. The importance of foreign trade to the overall U.S. economy is seen from the fact that "the United States remains the world's largest exporter as well as its biggest importer." According to Hon. C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs:

> One out of every five jobs in this country now produces for exports to other countries. One out of three dollars of corporate profit in this country derives from international activities of American firms.[8]

[3] Richard R. Nelson, "Technical Advance and Economic Growth: Present Problems and Policy Issues," in Proceeding of the International Conference on Science and Technology at New York University, March 1979. New York Academy of Sciences, New York.

[4] American Association for the Advancement of Science, "R. & D. in the Federal Budget, R. & D., Industry, and the Economy." AAAS Report No. 78–R–3, September 1978, Washington, D.C., pp. 132–33.

[5] National Science Board, National Science Foundation, "Science Indicators 1976". Washington, D.C. 1977, p. 3.

[6] NAS, "Technological Innovation and the U.S. Economy," p. 47.

[7] NSB, "Science Indicators" 1976, pp. 37–38.

[8] Helen Dewar, "The Impact of Exports and Imports," in the Washington Post, Washington, D.C., July 17, 1978, p. A22.

Essential as it is to maintaining a strong economy at home and competitive position abroad, innovation is equally important to meeting many of our pressing national needs. Thus technological innovation is required in order to develop: (1) Alternative energy sources such as solar, wind, geothermal, ocean thermal, coal liquification and gasification, and fusion power; (2) solutions to environmental problems such as air and water pollution and toxic waste disposal; (3) means for providing effective public services at reasonable costs in fields such as transportation, communications, fire fighting, public safety, and home utilities; and (4) effective defense and arms control technology to promote national security.

In a more fundamental sense, innovation may be seen as central to the generation of wealth in our society. First described by Fritz Machlup in "The Production and Distribution of Knowledge in the United States" [9] and by Daniel Bell in "The Coming of Post Industrial Society" [10], it is now generally recognized that we live in a knowledge society where the basic commodity is information. In such a society the most valuable information of all is the knowledge capacity to innovate. This capacity, rather than natural resources or industrial plant and equipment, becomes the key to generating new wealth. Therefore, if over the long haul we want to be able to afford to provide our citizens with necessary social services such as welfare, health care, and social security, we must foster sustained technological innovation throughout our economy.

In short, the significance of innovation is enormous. It is a key factor in insuring national security, the vitality of the economy, and fulfillment of our social needs. Specifically, it is essential to productivity; the creation of new products and industries; reducing inflation; achieving full employment; meeting international economic competition; developing alternative energy sources and improved methods of conservation; solving environmental problems; providing effective public services; generating the national wealth required to pay for neccessary social services; and in general enhancing the quality of life in our country.

U.S. Innovation Lagging

Despite America's impressive record of innovation over the past century, the consensus of informed judgment today is that U.S. innovation is lagging; as compared with its past, its potential, its current challenges, and its foreign competitors. The past year has witnessed a spate of articles on innovation, not only in the business and technical press, but in the popular media as well. The burden of these articles has been uniformly negative: That we are not innovating as rapidly and effectively as necessary to spur economic vitality and meet foreign competition. For example, the cover of a weekly newsmagazine was recently devoted entirely to innovation. The headline read: "Innovation—Has America Lost Its Edge?" The remainder of the cover consisted of a cartoon which attempted to convey the lack-

[9] Fritz Machlup, "The Production and Distribution of Knowledge in the United States". Princeton: Princeton University Press, 1962.
[10] Daniel Bell, "The Coming of Post Industrial Society". New York: Basic Books, 1973.

adaisical pace of U.S. innovation.[11] Similar articles laced the business, technical, and popular press throughout the year.

At the same time a salvo of policy studies on innovation was launched by Government and business groups, along with a steady supporting fire of speeches on the topic by leaders of industry and the technical community. Thus, three of four congressional analytical arms have undertaken major studies of innovation: The General Accounting Office (GAO), the Congressional Research Service (CRS), and the Office of Technology Assessment (OTA). The prestigious business policy analysis organization, the Committee for Economic Development (CED) is carrying out a major study on innovation. But the most extensive effort is the administration's Domestic Policy Review of Innovation, chaired by the Secretary of Commerce and involving inputs from all affected Government departments and agencies, as well as from a large number of outside advisory panelists. The outside inputs were in the form of separate reports from special subcommittees on: Economic and Trade Policy; Regulation of Industry Structure and Competition; Patent Policy; Federal Procurement Policy; Environment, Health, and Safety Regulations; Direct Support of Research and Development; and statements from the Labor Advisory Subcommittee and the Public Interest Advisory Subcommittee. Throughout these reports

> there was general agreement * * * that American productivity is lagging, particularly in comparison with major competitors such as Japan and West Germany. The decline in the growth rate of productivity * * * is regarded as a major factor contributing to inflation and the decline of the dollar.[12]

And the reports underscored the link between innovation and productivity.

In short, there is a strong consensus of opinion that innovation in the United States is lagging. To the extent that relevant data are available, they all support this conclusion. Such data deal with the inputs or resources made available for the innovation process in the United States, the outputs from the process, the effects of innovation on the economy, and comparisons with foreign nations. Relevant data from these areas are summarized below.

A key input to the innovation process is capital investment. This is, of course, critical in all business activity, but it is especially significant in innovative undertakings, which frequently involve the development of ancillary instrumentation and techniques, as well as the introduction of new facilities and equipment. In his major study of the relationship between inventions and economic acticity, Jacob Schmookler showed that capital investment was a necessary precondition of inventive activity, or at least that capital investment and the market demands associated with such investment preceded the development of inventions.[13] However, the investment which precedes an invention is only the tip of the iceberg; for "90 percent of the investment necessary to bring innovation successfully to market comes after the inven-

[11] "Innovation: Has America Lots Its Edge?" in Newsweek, June 4, 1979, cover page and pp. 58–68.
[12] John Walsh, "What Can Government Do For Innovation?" in "Science". Washington: American Association for the Advancement of Science, p. 350.
[13] Jacob Schmookler, "Invention and Economic Growth". Cambridge, Massachusetts: Harvard University Press, 1966.

tion process is complete." [14] In short, significant continuing capital investment is an essential prerequisite for healthy innovative activity.

But in recent years capital investment in innovative activities has fallen short of what is needed. This is partially due to the pervasive climate of uncertainty which has cloaked business decisionmaking in our society over the past decade. As long as the overall economic situation is uncertain, businessmen find it more difficult to make long-term commitments of capital. This is greatly exacerbated by the rampant inflation which has "meant that the cost of capital has reached all time highs, acting as a deterrent to capital spending," and which "has drastically altered the rates of return for new investments that businesses can accept. Faster recovery of capital costs has become a watchword in investment decisions by business, with an eye on the importance of profitability over the short term." [15] This is particularly important with respect to investment decisions on innovation, since innovations typically take long time periods to reach fruition. "It is rare that an important innovation can have a major impact short of 4 or 5 years, and, more frequently, the impact of a major innovation may not be felt for a decade or two." [16]

The problem is underscored by considering "the recycling time of risk capital for entrepreneurial types of investments," as noted by James Hillier the former Executive Vice President of RCA Corporation:

> If you invested in a standard innovation, say, in the mid-sixties, you could expect to get back your purchasing power so that you could recycle it into another innovation in about seven to nine years. For exactly the same innovation under today's conditions, it takes fourteen to fifteen years to recoup the original purchasing power. This means that we have to use twice as many constant dollars, twice as much purchasing power to achieve the same number of innovations today as it would have taken fifteen years ago.[17]

In any event, capital investment for innovation has fallen short over the past decade. "Capital expenditures by American businesses expanded by an average of 3.8 percent per year in real terms (from 1945 to 1970), but by only 0.9 per year since then.[18] Concurrently, "from 1969 to 1975, the total number of companies seeking equity funds for growth dropped 92 percent—from 1,800 to 150.[19] The capital acquired by firms with less than $5 million in net worth from public offerings since 1969 dropped from $1.46 billion in 1969 (with 548 offerings) to $16.2 million in 1975 (with 4 offerings)! The catastrophic decline in capital obtained by small businesses * * * extends to other sources of small business financing, including professional managed venture capital sources and high-risk investments by individuals." [20] "A recent survey by the American Electronics Association (AEA) documents

[14] Final Report of the Subcommittee on Economic and Trade Policy of the Advisory Committee on Federal Policy on Industrial Innovation to the Secretary of Commerce. Washington, Feb. 15, 1979, p. 6.
[15] *Ibid.*, pp. 5–6.
[16] Final Report of the Subcommittee on Procurement and Direct Support of Research and Development of the Advisory Committee on Federal Policy on Industrial Innovation to the Secretary of Commerce, entitled "Federal Procurement Policy." Washington, January 26, 1979, p. 2.
[17] NAS, *Technological Innovation and the U.S. Economy*, p. 57.
[18] Report of Subcommittee on Economic and Trade Policy, p. 6.
[19] Report of Subcommittee on Procurement, p. 17.
[20] Final Report on Patent Policy of the Subcommittee on Patent and Information Policy of the Advisory Committee on Federal Policy on Industrial Innovation to the Secretary of Commerce, Washington, February 6, 1979, pp. 1–2.

the increasing difficulty that new, small companies are having in gaining access to capital markets. Of the firms they studied: Companies founded between 1971 and 1975 were able to raise only half as much equity capital, on the average, as firms founded between 1966 and 1970; and firms founded in the more recent period had an average debt to equity ratio of more than 2:1, compared to the more secure 1:1 ratio that had prevailed for the previous fifteen years. * * * For the small businessman, the availability of capital has become the greatest unaddressed problem." [21] The significant of this shortage of capital for small business is underscored by the finding that small firms produce proportionately more innovations than do larger firms.[22]

Another striking indication of the decline the capital investment in innovative activities is the fact that: "as recently as 1968, 300 to 400 high technology firms were founded. But in 1976 the number was zero." [23]

Along with capital investment, the key indicators for input to innovation derive from specific statistics on the allocation of financial and human resources to R. & D. activity; for R. & D. is the underpinning of innovation. R. & D. by itself will not automatically produce or guarantee innovation; but without the reservoir of knowledge which derives and is replenished from R. & D., sustained innovation is unlikely. "All available evidence indicates that R. & D. is an important contributor to economic growth and productivity * * * the contribution of R. & D. to economic growth/productivity is positive, significant, and high," [24]

But resources for R. & D. over the past decade have lagged considerably. Thus "total (Federal) funds budgeted for fiscal year 1979 for the conduct of R. & D. * * * in constant dollar terms (are) * * * actually 16 percent below fiscal year 1967." [25] "As a fraction of the Gross National Product (GNP), national R. & D. spending has dropped from the high of 2.97 percent reached in 1964, falling to an estimated 2.25 percent in 1976 * * *. (In constant dollars) Federally supported R. & D. expenditures * * * in 1976 (were 18 percent below the peak reached in 1967. * * * As a fraction of the total Federal budget, R. & D. funds have declined substantially, falling, to an estimated 6 percent in 1976 from a high or 13 percent in 1965. As a fraction of the "relatively controllable" portion of the Federal budget, R. & D. outlays amounted to 13.5 percent in 1976—the lowest level since 1967 when they were 16.3 percent.[26]

With respect to basic research (which comprises about 13 percent of all R. & D. spending), "national spending * * * in constant dollars * * * in 1976 * * * remained nearly 11 percent below the peak year of 1968 * * *. In constant dollars, estimated Federal and Industrial support for basic research in 1976 was 15 percent below the peak levels which each had reached in 1968 * * *. In 1976 basic research expenditures by universities and colleges (in constant dollars) * * * were

[21] Report of the Subcommittee on Economic and Trade Policy, pp. 3–4.
[22] "Technological Innovation: Its Environment and Management." U.S. Department of Commerce. Washington. January 1967, pp. 16–18.
[23] NAS, "Technological Innovation and the U.S. Economy," p. 48.
[24] "A Review of the Relationship between Research and Development and Economic Growth/Productivity." Washington, National Science Foundation, February 1971, p. 3.
[25] AAAS Report III, p. 14.
[26] NSB, "Science Indicators 1976", p. 44.

roughly equal to the level reached in 1969 * * *. In constant dollars, Federal spending for academic basic research peaked in 1968, but real dollar expenditures for 1976 remained an estimated 10 percent below that peak year." [27]

With respect to industrial R. & D., "total funding for industrial R. & D. has barely kept up with inflation for the last 10 years. Increases in private industry funding of R. & D. have largely been offset by decreases in Federal funding of industrial R. & D. * * *. We see some signs of our decline in that the average constant dollar investment in R. & D. by industry has increased by less than two-tenths of a percent per year from 1967 to 1977." [28] Moreover, "there has been recent evidence * * * of a shrinking of time horizons and a growing conservatism regarding industrial R. & D." [29] "There has been an increased private-sector R. & D. emphasis in recent years on low-risk, short term projects directed at incremental product changes, and a decreased emphasis in the longer term research that could lead to radically improved products and processes." [30]

With respect to human resources, "in 1975, approximately 531,000 scientists and engineers (on a full-time equivalent basis) were engaged in R. & D. * * * almost 28,000 fewer than the peak employment level reached in 1969 * * *. The number of R. & D. scientists and engineers in industry * * * reached almost 360,000 * * * in 1975, (but) was still nearly 7 percent less than the peak employment reached in 1969." A particularly disquieting aspect of the human resources situation is the fact that there has been an aging of the academic workforce. Thus "of all the doctoral faculty involved in R. & D., the proportion of young science and engineering investigators decreased from 44 percent in 1968 to 30 percent in 1974." [31]

Another important indicator of inputs to innovation are Federal funds provided for the dissemination of scientific and technical information. For innovation cannot occur if the results of R. & D. are not incorporated in technology and used in the economy and the society at large. This process is facilitated through the dissemination of scientific and technical information. Thus it is disquieting to note that "Federal obligations for the dissemination of scientific and technical information, measured in real dollars, peaked in 1968 at $435 million but fell to an estimated $321 million in 1976." [32]

Thus far we have considered data reflecting inputs to the process of innovation, or resources made available to R. & D. and innovation activities. Now we shall turn to those data relating to outputs of the process, its effect on the economy, and comparisons with foreign nations.

Although the current scope of patents is such that they do not adequately reflect the full range of innovation occurring in our economy, they nevertheless provide one of the best indicators available for gaging the extent of inventive activity which is taking place. The

[27] Ibid., p. 66.
[28] Industrial Innovation and Its Relation to the U.S. Domestic Economy and International Trade Competitiveness. Washington, Congressional Research Service Report No. 78-204 SPR. October 13, 1978, p. 7.
[29] Nelson, p. 9.
[30] CRS Report No. 78-204 SPR, p. 14.
[31] NSB, Science Indicators 1976, p. 130.
[32] Ibid., p. 45.

data on patents is not reassuring. Thus, "the total number of patents issued annually has declined since 1971." [33] At the same time, "although positive, the U.S. patent balance declined almost 47 percent between 1966 and 1975. This was due to the 91-percent increase of foreign-origin patenting, coupled with the leveling off and eventual decline in the number of foreign patents awarded to U.S. citizens. The United States has a favorable but declining patent balance with Canada, the United Kingdom, and five European Economic Community countries, but a negative balance with West Germany and Japan. The share of U.S. patents granted to foreign residents has more than doubled in the last 15 years, reaching a level of more than 35 percent in 1975 * * *. The percent of patents due to foreign inventors increased in nearly every product field from 1965 to 1975." [34] "In the 1950's, according to an analysis by the Stanford Research Institute, 82 percent of the major inventions brought to market were developed in the United States. By the late 1960's, the figure had declined to 55 percent." [35]

Perhaps the most important indicator of the extent and effectiveness of innovation consists of data relating to productivity gains. For although productivity gains are generated by other factors besides technical change (such as increased skills in the work force and improved organization of production); and although technological innovation not only enhances productivity, but also can lead to new goods and services—nevertheless, the date of productivity growth is as good an indicator of the extent and quality of innovation in our economy as we have available.

It is, therefore, distressing to note that "productivity gains * * * have averaged only 1.6 percent during the last decade, a discouragingly low figure compared to the 3.2 percent average for the first two decades in the postwar period (and) compared to the 5 and 6 percent figures of our major trading partners * * *. If productivity over the last 10 years had increased at the same 3.2-percent annual rate of growth of the two previous decades, then output per hour would have been 11-percent higher in 1977. The difference would have meant more than a $100 billion increase in terms of real gross national product at the 1977 employment level." [36] It is disturbing not only that productivity growth is substantially less than it had been in past decades, but that it is significantly lower than that of our trading partners. "Economists generally agree that the rate of productivity growth in the American economy has been substantially below that of America's major foreign competitors." [37]

Thus, while U.S. productivity grew 2.8 percent from 1960 to 1970, during the same period productivity grew 3.3 percent in the United Kingdom, 3.7 percent in Canada, 5.5 percent in West Germany, 5.9 percent in France, 7.4 percent in Italy, and 10.8 percent in Japan.

Productivity levels in the United States (currently) exceed those of France, West Germany, and the United Kingdom, but U.S. productivity gains between 1960 and 1976 were the smallest of the five countries. Japanese productivity gains

[33] Report on Patent Policy, p. 2.
[34] NSB, "Science Indicators 1976," pp. 2, 3, 92.
[35] Newsweek, p. 58.
[36] NAS, "Technological Innovation", p. 45.
[37] Robert Gilpin, "Technology, Economic Growth, and International Competitiveness", a report to the Joint Economic Committee, U.S. Congress. Washington, July 9, 1975, p. 10.

were more than five times greater than U.S. increases.[38] Finally, productivity of U.S. businesses fell more rapidly in the second quarter of this year (1979) than at any time since the Government began keeping records in 1947.[39]

This disappointing record of U.S. productivity growth is a clear indication that U.S. innovation is not achieving all that one could reasonably expect of it.

Comparison with foreign nations along other dimensions serves to underscore the overall impression that U.S. innovation is lagging. For example, since 1964, the proportion of the gross national product devoted to R. & D. in the United States has substantially decreased; whereas "during the decade 1962–72, both Japan and West Germany recorded substantial growth in the proportion of their gross national product directed toward R. & D." [40] Although West Germany has recently leveled off and started to decline in its ratio of R. & D. expenditures of gross national product, Japan is still continuing to increase.

Another comparative measure of a country's R. & D. effort is the relationship between the number of scientists and engineers (S. & E.'s) and the population. The number of S. & E.'s per 10,000 population in the United States has remained constant since 1972. The 1975 level is 10 percent lower than that of 1969, when this ratio peaked in the United States . . . (but) data from the other countries studied showed a general increase in this ratio.[41]

While the U.S. trade balance for R. & D.-intensive manufactured products has been positive since 1960 and while surpluses from these product groups, until 1976, have been sufficient to cover the increasing deficits from non-R. & D. intensive products, nevertheless the situation is shifting to a less favorable stance for the United States. Thus, the United States now has a "negative trade balance in R. & D. intensive products with Japan * * * due mainly to U.S. imports of electrical machinery and to a lesser degree to imports of professional and scientific instruments and nonelectrical machinery." [42] In 1977, this amounted to "a $3.6 billion trade deficit with Japan in high-technology goods * * * about two-thirds of (which) was accounted for by imports of consumer electronic goods." [43] Even more foreboding is the fact that the newest bridge across the Mississippi River "is soon to be fabricated in Japan at a cost of $42 million, one-third less than the lowest American bid, and floated by barge in pieces the size of ship hulls to its destination at Luling, La." Moreover, in the first quarter of 1978, "the traditional U.S. surplus in trade of manufactured goods declined to the point of a $3 billion deficit," and "imports of machinery, transportation equipment and manufactured goods rose dramatically, suddenly overtaking oil as the biggest component of the country's trade deficit." [44]

In the words of Dr. Philip Handler, President of the National Academy of Sciences:

> **The topic of technological innovation is on the front page of the newspaper day after day. It is debated on talk shows, a concern of the Congress, and a central concern of the executive branch * * * if American streets did not abound in Datsuns, Toyotas, Mercedes, and Hondas, if most of our purchases of household electronics were those made by General Electric, Westinghouse, and Zenith rather than by Sony and Panasonic, if those cameras and pocket calculators we carry were of domestic manufacturer * * * we would feel rather differently about this.**[45]

[38] NSB, "Science Indicators 1976", p. 3.
[39] John M. Berry, "Productivity Fell Sharply in 2d Quarter," in Washington Post, Washington, July 21, 1979, p. A1.
[40] NSB "Science Indicators 1976," p. 5.
[41] *Ibid.*, p. 2
[42] *Ibid.*, p. 3.
[43] "Vanishing Innovation" in Business Week, July 3, 1978, p. 48.
[44] Dewar, pp. A1 and A22.

The inroads of foreign manufacturers in consumer products are tangible indicators of the U.S. lag in innovation. But we can infer the lag just as well from the intangible, potential products, processes, and services which our society needs, but which technology has not yet created. These intangible indicators are just as valid for assessing the effectivness of innovation in our society as are the other indicators discussed above.

Thus, we all reognize the need for new technologies to aid in energy conservation and in the production of alternative energy sources; in pollution control technology; in automobile propulsion systems; in mass transit; waste recycling systems; rural telecommunications; health care delivery systems; public safety systems; and a host of other areas. In many instances, the basic science is adequate for substantial progress; yet innovation does not take off and move ahead as it should and could. Sometimes it may be due to the difficulty to aggregating sufficient market demand; sometimes to the inability to marshall sufficient incentives for entrepreneurs; sometimes to the presence of institutional or regulatory barriers; sometimes to the unavailability of sufficient capital; or the absence of managerial skills where they are needed.

A 19th century sage once remarked that if you built a better mousetrap, the world would beat a path to your door. But in the complex 20th century an improved solar collector, for example, may prove to be of no avail if it does not meet local building codes or FHA standards, if insufficient capital is available to exploit it, if an adequate market cannot be readily stimulated, or if the inventor or inventing organization does not have proper incentives or managerial skills to promote and produce the product. But whatever the reason or combination of reasons, the simple fact is that innovation is not occurring rapidly or effectively enough to meet many critical national and social needs.

Thus whether we consider past performance or present potential, current challenges or foreign competition—whether we examine patterns of capital investment or R. & D. funding, patents, productivity, international trade, or compelling national needs for new technology—we inescapably arrive at the same conclusion: That U.S. innovation is lagging.

Yet we know the enormous significance of innovation to national security, economic vitality, and social progress. And we know that the impediments to innovation are not intrinsic obstacles or insuperable barriers: They can be overcome. What then should we do about them? How should we proceed to ameliorate innovation?

The Process of Innovation

Before we can delineate a national strategy for stimulating innovation, we must examine the innovative process, establish overall policy guidelines, and identify target areas for Federal action, along with the goals to be pursued in each area.

First, we must be clear on what we mean by technological innovation. We do not mean merely the conception of a new scientific idea or research discovery. Nor do we mean merely an invention, or completion of a technological development, or even its incorporation in an engineering system capable of producing it.

At the heart of every innovation is a unique coupling or matching of some technological capability with a market need or opportunity. When this conceptual coupling has been turned into a tangible product, process, or system—which has been disturbed and used successfully within the market—then, and only then, can we say that an innovation has occurred.

So the notion of innovation is extremely broad and encompassing and involves elements of basic scientific research, invention, engineering know-how, marketing, finance, production, and management; but in all cases depends on the imaginative matching of technological capabilities with economic and social needs or opportunities.

Now how does this process occur? At one time innovation was naively viewed as a simple, linear progression whereby basic research led to applied research which in turn led to development or invention, which engendered further engineering, and then production and use. This is now recognized as a simplistic, misleading characterization.

Technological innovation is not a simple, straightforward sequence of events that proceeds with deterministic regularity toward predictable ends. The singular term "process" ascribes too much simplicity and uniformity to what is in reality an exceedingly involved set of processes that follow a complex course of events that is often highly creative and unpredictable.[46]

There is nothing linear about the process of innovation. It can start from many points; it involves many dead ends, new starts, and innumerable feedback loops; and it is riddled through and through with risk. At its most crucial points, it entails creative leaps of imagination which can't be predicted or planned. When this author 10 years ago constructed a comprehensive systems model of the processes of technological innovation, the result was a model which depicted the interrelationships among 93 separate functions and hundreds of subfunctions.[47]

[46] Ellis R. Mottur, "Technological Innovation for Civilian, Social Purposes". Washington: George Washington University. July 1971, p. 162.

To understand the variations possible in patterns of innovation, one need only consider the starting point of particular innovations. Some for example, do not start from new research knowledge, but draw on knowledge which has been available for long periods. Thus, the reflection of radio waves by metallic objects was first demonstrated by Hertz in 1887, but the development of radar did not commence in earnest until 1934.[48] In other situations, however, new research findings can lead rapidly to innovation. Thus, Shockley theoretically predicted the possibility of the transistor in 1949; by 1951, Bell Telephone Laboratories announced the actual invention of the junction transistor; and by the mid-1950's, transistors were being mass-produced throughout the Nation.[49] However, in most instances the vast majority of necessary scientific advances have been made long before the innovation gets underway; a study by Illinois Institute of Technology, for example, showed that 90 percent of the essential scientific base had been established 10 years or more before the innovations occurred.[50]

Another variable which affects the rate and focus of innovative activity is the stage of development of the firms involved. Thus, "following the birth of a new product, the product design changes rapidly and radically: it is fluid, the manufacturing process is loosely organized and unsettled, and the organization is adaptive. Conditions at this point constitute the initial or "Fluid" stage of development and at this "Fluid" stage, major product innovations are rather frequent. * * * A turning point occurs with the emergence of a "dominant design" * * * that offers superior performance. * * * As the product and the manufacturing process develop over time, costs decrease, product designs become more standardized and suitable for broad market segments and change becomes less fluid. At the same time production processes, designed increasingly for efficiency, offer higher levels of productivity. * * * The nature and sources of technological innovation shift with these structural changes in product and process. Innovation becomes more incremental and technological progress takes the form of steady evolutionary development. Major innovations with potential to reshape the product or greatly improve productivity originate more frequently outside the firm and industry."[51]

Sometimes new technological developments virtually generate their own markets as in the case of computers and lasers.[52] Sometimes national needs serve to stimulate innovation as in the case of synthetic rubber during World War II or pollution controls at the present time. But in all cases, someone has to match the market need with the technological capability.

[47] Ibid., "Part II—Systems Model of the Processes of Technological Innovation," pp. 161–348.

[48] Robert M. Page, "The Origin of Radar." New York: Doubleday, 1962, pp. 13–40.

[49] Richard R. Nelson, "The Link Between Science and Invention: The Case of the Transistor," in National Bureau of Economic Research, "The Rate and Direction of Inventive Activity." Princeton: Princeton University Press, 1962, pp. 549–583.

[50] Illinois Institute of Technology, "Technology in Retrospect and Cultural Events in Science (TRACES)," Report for the National Science Foundation. Washington: NSF C535, Dec. 5, 1968.

[51] William J. Abernathy, "The Productivity Dilemma: Roadblock to Innovation in the Automobile Industry," report of the Harvard University Graduate School of Business Administration, 1977. Executive summary, pp. 7–8.

[52] Nathan Rosenberg, "Science, Invention, and Economic Growth," Economic Journal, vol. 84, March, 1973. March 1974, pp. 90–108.

Generally, innovations don't happen by themselves. Moreover, in most cases a single individual has to take the lead in pushing the innovation forward against the innumerable obstacles that invariably arise. This entrepreneur or "innovation champion" (as Donald Schon has dubbed him) must serve as the change agent who makes the innovation happen in practice.[53] For in the final analysis, the success of most innovations depends on the initiative, imagination, judgment, commitment, and courage of particular individuals who are willing to place their time, talent, reputations, and careers on the line in situations of considerable uncertainty and risk. Providing such individuals with effective incentives must be a paramount imperative of public policy for innovation.

A point which cannot be overemphasized is that "uncertainty is inherent in technical innovation." [54] Along with this uncertainty factor goes an extremely high failure rate for innovations. Thus, a study by Edwin Mansfied showed that for every 100 projects which were initiated, only 57 were completed technically; 31 of these were commercialized, and only 12 of the original 100 eventuated in market success.[55]

In any case, in order for a particular innovation to succeed, it must embody the following elements:

First, there must be the creative coupling within someone's mind: Involving the perception of a new way in which a possible technological capability can be shaped to meet some economic, social, or human need; or to take advantage of some opportunity. This imaginative coupling or matching within the human mind is at the heart of the innovative process, but it must be accompanied by all of the following elements if it is to produce success.

Thus, second, there must be an effective change agent or "champion"— who may not be identical with the inventor or originator of the innovative concept, but who could be an individual enterpreneur, investor, or corporate or Government official—who persists in the commitment to make the innovation happen.

Third, it must be possible to tap or stimulate a sufficient market, in which the innovation can reach the scale or volume necessary for success, and in which the innovation can withstand the buffeting of competition.

Fourth, there must be access to sufficient capital to obtain the resources necessary to enable the innovation to succeed.

Fifth, the combination of potential rewards and risks, along with the perceived probablity of success for the innovation, must be sufficiently attractive to justify investment of the necessary capital when compared with alternative uses to which it could be put.

Sixth, adequate managerial skills must be brought to bear on the shaping of the innovation from research, invention, or initial development through any additional engineering that may be required, and through production, marketing, distribution, and sale within the market.

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[53] Donald A. Schon, "Champions for Radical New Inventions," Harvard Business Review, vol. 41, No. 2 (March–April 1963), pp. 77–86.
[54] Donald A. Schon, "Technology and Change". New York: Delacorte Press, 1967, pp. 24–32.
[55] Edwin Mansfield, "Research and Innovation in the Modern Corporation." New York: W. W. Norton & Co., 1971.

ATTACHMENT B

Some Tales of 'Copycat' Products Are Best Left Untold, Sterling Drug Learns

By Bill Abrams
Staff Reporter of The Wall Street Journal

If you steal it, don't flaunt it.

That's marketing advice Steven W. Lapham would do well to remember. If he had heeded it last November, he might have kept himself and his employer out of court.

Mr. Lapham is new products director of Lehn & Fink Products Co., the Sterling Drug Inc. division that makes Lysol and other household cleansers. Four months ago he was a guest speaker at an American Marketing Association new products conference.

"Replicate, don't innovate," was Mr. Lapham's theme. "Trying to innovate as the only way to success is one of the greatest myths of new products ever created," he said.

Instead, he suggested, be a copycat. "Someone else has gone and done your homework for you," he said. "They have taken the risk, the time, and spent the dollars."

His example of successful mimicry: Lehn & Fink's own Love My Carpet rug and room deodorant, a copy of Airwick Industries Inc.'s Carpet Fresh.

Mr. Lapham told how Lehn & Fink was skeptical at first about Carpet Fresh, which was test-marketed by Airwick in mid-1977, and introduced nationally a year later. "We found it pretty hard to believe that Carpet Fresh had any potential at all," he said. "What housewife in her right mind would sprinkle white powder onto her carpeting before vacuuming? Who dirties their carpet first? The whole idea had to be wrong."

A Quick Copy

It wasn't. When Lehn & Fink monitored Airwick's test markets, it found that Carpet Fresh was "a terrific idea," Mr. Lapham explained. In December 1978, Lehn & Fink began a crash project to duplicate Carpet Fresh. A copy was on supermarket shelves within six months—far sooner than the two years or more it usually takes to develop a new product.

Mr. Lapham's candor may have startled his audience, but he didn't create much of a stir until a month later when Advertising Age, a trade publication, reported his remarks.

Then the harrumphing began. Marketing executives privately scorned Mr. Lapham's approach as one that did little to promote economic growth; some were surprised that such an important name in consumer products as Sterling Drug would stoop to mimicry. An Ad Age editorial said, "Where would the replicators be without the innovators? They wouldn't even have material on which to base their speeches."

Four weeks after the Ad Age story, Airwick finally spoke up—in federal district court in New Jersey. The company charged Lehn & Fink with patent infringement and asked for damages totaling triple the profits from Love My Carpet. Although Airwick officials say they had been contemplating litigation before Mr. Lapham's speech, the suit quotes his remarks extensively.

Imitation, of course, isn't unusual in marketing. Mr. Lapham's thesis had been put forth 13 years earlier in a Harvard Business Review article, "Innovative Imitation," by Harvard marketing theoretician Theodore Levitt. He urged companies to search for products they could copy through "reverse R&D — working backwards from what others have done, and trying to do the same thing for oneself."

Ample Examples

Examples of successful copycats abound. International Business Machines Corp. wasn't first in computers nor RCA Corp. in television sets, Mr. Levitt noted. Mr. Lapham pointed to General Foods Corp.'s Jell-O pudding following R. J. Reynolds Industries Inc.'s My-T-Fine and Schick Inc. razor blades imitating Gillette Co.'s.

Even Airwick says it sometimes follows other companies' ideas. "When we see something successful, we try to put a

unique twist on it," says Michael Sheets, president of Airwick's consumer products division. The company's new Air Wand room freshener, for example, is strikingly similar, except for its package shape and scent, to Clorox Co.'s Twice as Fresh.

Nonetheless, Airwick executives say that they were surprised by Lehn & Fink. "We were upset about the fact that they came in with an exact copy," says Frank Conkling, Airwick chairman. "If they had gone us one better in technology, we would have said, 'c'*est la guerre*'."

Lehn & Fink's quick copy also stung Airwick's pride. Airwick, which had been acquired by Ciba-Geigy Ltd. in 1974, had only recently begun transforming itself from a stodgy one-product company into an innnovator. And with Carpet Fresh, it had created more than a new product; it started an entirely new product type. Before, people simply vacuumed or shampooed their rugs. Carpet Fresh was a deodorizer; Airwick asserts that it removes smells from carpets, and as the powder passes through the vacuum's exhaust, perfumes the entire room.

It was also a rapid success, especially among households with infants, puppies and cigar smokers. Sales grew to about $60 million last year, and with other competitors jumping into the market, Carpet Fresh's market share was roughly 60%, Airwick says.

Airwick has also sued a manufacturer of store-brand versions of Carpet Fresh for patent infringement, but it is Lehn & Fink that has caused all the ruckus in the industry.

Did Mr. Lapham or Lehn & Fink anticipate such a strong reaction to the marketing association speech? Sterling has since silenced Mr. Lapham and says only that it has a "defensive case" against Airwick; Lehn & Fink's answer to the Airwick complaint is due soon.

To new product executives at other companies, though, the Lehn & Fink affair is mostly a case of indiscretion. "If you can imitate and get away with it, you should hide what you're doing," says a marketing expert versed in the law. "You don't win anything by shooting your mouth off in the marketplace."

MOTION FILED
MAR 21 1980

IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

No. 79-669

DAWSON CHEMICAL COMPANY, et al.

Petitioners,

v.

ROHM AND HAAS COMPANY,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit.

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE AND BRIEF OF THE AMERICAN CHEMICAL SOCIETY AS AMICUS CURIAE

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DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION, AND CRYSTAL CHEMICAL COMPANY,

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v.

ROHM AND HAAS COMPANY,

Respondent.

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

The American Chemical Society respectfully moves this Court for leave to file the accompanying brief as *amicus curiae*. The consent of the attorneys for Respondent has been obtained. The attorneys for Petitioners have denied consent to the filing of a brief on behalf of the American Chemical Society, the position of which favors Respondent.

The American Chemical Society is a non-profit scientific and educational organization with membership of approximately 118,000 chemists and chemical engineers, reflecting a broad spectrum of academic, governmental, and industrial

professional pursuits. The objects of the Society, as stated in its charter, are

> . . . to encourage in the broadest and most liberal manner the advancement of chemistry in all its branches; the promotion of research in chemical science and industry; the improvement of the qualifications and usefulness of chemists through high standards of professional ethics, education, and attainments; the increase and diffusion of chemical knowledge; and by its meetings, professional contacts, reports, papers, discussions, and publications, to promote scientific interests and inquiry, thereby fostering public welfare and education, aiding the development of our country's industries, and adding to the material prosperity and happiness of our people.[1]

Pursuant to these goals the American Chemical Society is a leading publisher of scientific journals in all phases of chemistry and chemical engineering. The Society holds regular scientific meetings at which chemists with common interests have an opportunity to exchange scientific information and maintain professional contacts. Representatives of the Society have appeared before Congress and other governmental bodies to advise on the effect of proposed actions on science, science policy, and the contributions of science to the public welfare.

The American Chemical Society represents a cross section of the whole of chemistry as a science in the United States. The institutional support of the science of chemistry is found in colleges and universities, scientific research institutions, the chemical industry, and governmental agencies. All are interdependent in the scientific and societal sense, and they are broadly interdependent economically. Of particular interest with respect to the case at bar is the relationship between basic

[1] National Charter of the American Chemical Society, enacted as Public Law No. 358, 75th Congress (1937); reprinted in "Charter, Constitution, Bylaws, and Regulations of the American Chemical Society," Bulletin 5 of the American Chemical Society, Washington, D.C., January 1, 1980.

research—sometimes called pure science—and the applied research which leads to industrial growth. Each supports the other. The patent laws are applicable only to the results of applied research, and it is a matter of concern to the American Chemical Society that the incentive and support which the patent laws bring to this aspect of our nation's technological strength not be unnecessarily diminished.

In the view of the Society the decision of this Court in this case can have an effect on chemical research for the years to come, not only on research on pesticidal chemicals, but also on the growth of the chemical industry; on chemistry programs at universities; and on the employment of chemists; as well as on the ability of chemistry and chemists to contribute in an optimum way to the public welfare.

The Society respectfully requests the opportunity to express and explain its concern, and moves this Court for leave to file the annexed brief as Amicus Curiae.

Respectfully submitted,

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BRIEF ON BEHALF OF THE AMERICAN CHEMICAL SOCIETY AS AMICUS CURIAE

INTEREST OF THE AMERICAN CHEMICAL SOCIETY

The American Chemical Society is a non-profit scientific and educational organization, founded in 1876, and now the largest scientific organization devoted to a single discipline: chemistry. The interest of the Society in the question before this Court is explained in the Motion for Leave to File a Brief.

SUMMARY OF THE ISSUES OF CONCERN TO THE AMERICAN CHEMICAL SOCIETY

The major legal issue of this appeal appears to be whether, under § 271 of the Patent Act of 1952, the inventor/patentee of a new use for a known chemical compound which is not a "staple" article can refuse to grant licenses to contributory infringers of the use patent, but can nevertheless himself sell the product and enforce the patent against such contributory infringers.

The American Chemical Society is concerned about the possible effects on scientific research of a change in interpretation of the law surrounding contributory patent infringement—effects on the ways research is conducted and on the incentives for developing the fruits of scientific research.

The immediate impact of a reversal of the decision of the Court of Appeals would be to exempt from the reservoir of potential new products the large number of chemical molecules in the scientific literature for which no practical utility has yet been discovered. Heretofore, the generally accepted interpretation of § 271 in the agricultural chemical field has enabled the development of new products supported by "use" patents of the sort here at issue. Continuation of this practice will enhance the progress of science and is in the public interest.

DISCUSSION

I. APPLIED SCIENTIFIC RESEARCH IN THE CHEMICAL FIELD IS AN OUTGROWTH OF PURE SCIENCE

A. Unpatented Compounds in the Public Domain Are Not Necessarily Available to the Public

In the case at bar the chemical compound "propanil" is unpatented and unpatentable. Many chemical compounds are unpatentable for a variety of reasons, as shown below. To describe an unpatentable compound as "in the public domain"

may be highly misleading. This suggests that such compounds are readily available to the public—when in fact most "known" compounds are not available, never have been available, and never will become available unless the next step is taken: the discovery, by scientific experimentation, of a potentially valuable use of the chemical compound.

The history of chemical scientific research demonstrates that there has always been a dichotomy between pure scientific research, studies of the properties of matter—this being the foundation of chemical science—and applied scientific research and development of practical uses for chemical products.

Chemical compounds for which such practical utility has not been developed are excluded from participation in patent systems. The thrust of patent systems is to seek and encourage advances in applied science. In the chemical field this takes the form of finding new uses of chemical compounds. History shows that such new uses of chemicals have indeed been developed for the benefit of mankind. The American Chemical Society urges that artificial barriers not be placed in this field of applied science, by introducing the irrelevant distinction of whether or not the chemical compound itself may be the subject of a patent.

B. The Literature of Chemical Science Is a Valuable Resource

Over the past 150 years chemistry has shared and in many cases led the extraordinary growth of understanding of our universe and its properties. The curiosity and creativity of chemists around the world, both the so-called pure scientists and the applied scientists, have enabled each to build on knowledge previously generated, and each to disseminate new findings for others to build upon. There is a strong tradition of publication in the chemical sciences, and there is an enormous volume of scientific journals in both pure and applied chemistry devoted to this tradition. The American Chemical Society alone publishes twenty-three journals, in the pure sciences

—such as the "Journal of Organic Chemistry", the "Journal of Physical Chemistry", "Biochemistry", "Analytical Chemistry", etc., and in applied chemistry, such as "Environmental Science and Technology", the "Journal of Agricultural and Food Chemistry", etc.

Much of this chemical literature is devoted to the preparation and study of the behavior and properties of chemical molecules. Many chemical compounds are synthesized in university research laboratories in connection with studies at the forefront of chemical knowledge, relating to new and interesting properties of matter; and many compounds have been prepared at research institutions and industrial research laboratories with specific applications in mind. Theoretical studies and applied research have inspired chemical scientists to synthesize and describe molecules of extraordinary variety and increasing complexity, and the volumes of scientific knowledge resulting from this work is a resource of inestimable value.

C. The Chemical Registry System of the American Chemical Society Alone Lists 4,848,835 Different Chemical Compounds

The American Chemical Society has undertaken to keep track of known chemical compounds, their properties, and their uses. In 1907 the Society commenced the publication of *Chemical Abstracts*, which in abstract form presents a full collection of and reference to the worldwide chemical literature. (In 1979 *Chemical Abstracts* included abstracts of 436,887 printed publications from 18,684 scientific journals from over 100 countries, patents of 26 countries, and other sources around the world.) In 1965, taking advantage of the advances in information handling available through computer science, the Society established the Chemical Registry System, a computerized registry of all compounds identified in the worldwide chemical literature and indexed for *Chemical Abstracts*. Compounds made prior to the start of the system come into the registry only when they are referred to in later published literature indexed for *Chemical Abstracts*.

As of March 5, 1980 the Chemical Registry System listed 4,848,835 chemical compounds as fully defined unique substances. Growth of this system is at the rate of 350,000 compounds per year. The Chemical Abstracts Service estimates that between 50% and 60% of all chemical compounds ever prepared are included in this list. Prior to the start of the Chemical Registry System other indexes of chemical compounds were available—the *Chemical Abstracts* index going back to 1907 and chemical compound indexes published both in Germany and in England starting in the 1800's. Thus there are estimated to be another 3 to 4 million compounds that are "known" to the literature and readily retrievable by established literature search techniques, and thus unpatentable if now synthesized and studied.

By contrast, the number of chemical compounds in the inventory list recently compiled by the EPA under the Toxic Substances Control Act was less than 47,000 as of October 1979. One may add to this number those chemicals listed in compliance with other statutes (including pesticides, pharmaceuticals and intermediates for pharmaceuticals) and it appears to be a fair count that about 50,000 chemical compounds are available in commerce in the United States.

This contrast between the number of compounds deemed "old" or "known" and therefore unpatentable, and those actually available in commerce, is at the root of our concern.

D. Many More Compounds Are Deemed Structurally Obvious and Unpatentable under United States Patent Law

In addition to this extraordinary number of "known" compounds, the patent law provides that compounds which are considered to be "structurally obvious" and otherwise closely related to or obvious from the chemical literature may also be unpatentable. Many more compounds might be held unpatentable because they are comprised within a generic formula or otherwise described on paper, although they may never have

been prepared. It is conservative to estimate that, under United States patent law, some high multiple of the five million chemical compounds included in the Chemical Registry System could be deemed unpatentable. The vast majority of such compounds have never been actually made and have no known practical utility. Yet each of these compounds is considered to be in the public domain, and is indeed available to the public in the sense that anyone might seek to prepare the compound and to explore its properties and its uses. Only when a use is discovered, a use having value to the public, does a motivation develop to produce the compound.

This fact is at the heart of our concern about the impact of the case at bar on applied scientific research. Applied research is research with a purpose, normally an industrial, profit-seeking purpose and therefore normally research which is fostered by patent systems. Surely this reservoir of millions, literally millions, of chemical compounds should not be excluded from the scientist's attention, by denying to the scientist adequate patent protection for the possible discovery of practical uses for such compounds.

E. The Example of Propanil Illustrates the Public Benefit from Applied Scientific Research into Uses of Known Compounds

Far-reaching public benefits have flowed from applications of chemical compounds in health, in agriculture, in production, in the quality of our technology-based economy. Chemical advances have been at the forefront of modern technology. Chemical treatment and adaptation of chemical compounds form a vital part of applied science and industry. The value to agriculture of the discovery that the compound called propanil controls weeds in the environment of rice plants would be the same whether propanil was one of the millions of "known" compounds with no previously known value, or whether propanil was itself new and patentable. The 1952 Patent Act, in §271, had the practical effect of minimizing the impact of this

distinction in the chemical field. The result has been to foster research in the agricultural chemical field by enabling an unhindered search for biological properties in the vast body of known chemical structures.

II. AGRICULTURAL CHEMICAL PROGRESS REQUIRES INVENTORS AND INNOVATORS

A. Inventive Activity Is Directly Related to the State of Existing Knowledge and the Interest in Creative Research, in an Economic Context

Many scholars, economists and scientists, have been concerned with the state of inventive activity in the United States. It is accepted that the state of knowledge at any given time is a primary factor in the potential for useful advances. "Invention" is a goal of applied research, which is conducted principally in industrial laboratories, by scientists who normally were schooled in pure science. To quote a scholar in this field:

> We assume that the growth of modern western industrial technology has been primarily the result of the interplay of (1) changes in the state of knowledge and (2) changes in industry.[1]

It is a truism that the scientific mind seeks a challenging, interesting occupation:

> Changes in the state of knowledge can influence inventive activity by affecting either (1) the prospective cost of making an invention and thereby the net profit anticipated from it; or (2) the intrinsic interest of explorations in different fields of technology. While analytically distinct, (1) and (2) are probably often impossible to differentiate in practice: though an employer may finance the pursuit of an idea because new knowledge reduces its prospective cost, his hired inventors may pursue the idea mainly because they find it interesting.[2]

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[1] J. Schmookler, THE RATE AND DIRECTION OF INVENTIVE ACTIVITY: ECONOMIC AND SOCIAL FACTORS (1962) at 195.

[2] *Id.* at 195-96.

At the core of this sociological analysis of the inventive process is the understanding that, the broader the base of available scientific knowledge, the better the potential for new inventions—provided that economic conditions are favorable:

> [T]he answers . . . will be found primarily in the anticipated costs and benefits—with risk preferences, intellectual curiosity, and purely random factors undoubtedly also playing a part. . . The supply of inventions is in a sense determined by the number of creative individuals skilled in the technical arts, and by the state of knowledge which affects the conversion of inventive effort into inventive output. The demand for inventions, in turn, is presumably determined by economic conditions.[3]

The chemist working in the scientifically interesting, and industrially important, field of chemical/biological activity is indeed interested in exploring the potential value of those molecules, obscure or not, that have been and can be produced. The chemist inventor, if faced by a patent situation which would eliminate for economic reasons investigations of the biological activity of compounds that have already found their way into the crowded literature, would surely feel that such a situation would impede scientific progress. Nor does there appear to be any countervailing public benefit. The public benefit would be, we submit, in continuing to foster research into new uses of known compounds, in keeping with the ruling of the Court of Appeals below.

B. Scientific Research in the Field of Biologically Active Chemicals Draws Both on the Catalog of Known Compounds and on New Compounds—"Random" and "Directed" Research

Living organisms are complex systems, and despite enormous progress it is still not predictable how a plant or animal will respond to a particular chemical. Much research is being done on the relationship between chemical structure and

[3] *Id.* at 197.

biological activity of various types, and yet research directors and scientists in this field continue to find it worthwhile to work with and screen a wide variety of chemical structures for biological activity.

Thus, the search for biological activity in living systems proceeds on two fronts, the random screen and the directed research. In both of these areas there is a large component of empirical science, wherein increasingly complex chemical structures are investigated for activity in agricultural pest and weed control, as plant growth stimulants and regulants, in treatments of diseases of living organisms, and in other biological environments.

In the random screening approach, known compounds and examples of many types of molecular structures are sought from various sources, often from universities and research institutes where chemical compounds have been prepared for other purposes, normally in pursuit of a project in pure research and of scholarly import, with the results usually published in scientific journals. Such random screening programs are common in the search for biological activity, although they are a notoriously expensive method of developing compounds which can lead to further study: such a program is carried out by the National Cancer Institute in screening the broadest possible spectrum of compounds for useful activity.

The applied scientist also carries out what is sometimes called "directed research", wherein the chemist attempts to design compounds with the sought-for activity, based on the scientist's studies of the literature and past knowledge, with a heavy dose of scientific intuition. Such compounds are often new and patentable, but may turn out to be "known" in the chemical literature. Useful chemical products, having value in plant and animal systems, have been found following both general approaches to research.

There is a vital public interest in providing to the scientist the broadest possible scope with which to work. The plain

language of Section 271 as written, and as interpreted by the court below, appears to serve this public interest.

C. Inventions That Are Never Made Cannot Enhance Competition

Even a superficial observation of the agricultural chemical industry demonstrates that competition has been fostered by the continuing introduction of new products having improved biological properties. New products afford the consumer a choice not only as to price, but as to the properties and performance characteristics of a variety of products, one or more of which may be better suited for his particular needs than others. These new products are heavily research dependent and their introduction is accompanied by disproportionately high investment costs.

It is in the interest of the ultimate user of these products, the farmer, to have a continuing supply of new pest-control agents: as resistance builds in the target pests, or to achieve safer products with lower residues, or to adjust to changing pest populations, or to achieve labor-saving economies. Competition is not promoted by forced licensing of an existing product, but rather by the need to invent around, and improve upon, a product of a competitor.

We assume that those industries engaged in research in the crop protection field would adjust to a change in the interpretation of §271 and avoid products for which no action for contributory infringement may lie in the United States. But to what end? Inventions that are never made cannot benefit the farmer, the public, or our national industrial strength.

D. Research Is Upredictable and Should Not Be Penalized by Changing the Law of Contributory Infringement

The possiblity of different laws governing methods of selling a patented product and an unpatented non-staple product, in both cases for a newly discovered use, would itself be a deterrent to innovation. Researchers would be constrained to

try to limit their research to patentable compounds. But research usually doesn't work that way. Where the search for biological activity, whether random or directed, will lead cannot be determined in advance. Only when activity has been detected, and perhaps optimized through a series of modifications in the active molecules, is it clear where the research has led. If the optimum compound is not patentable, perhaps because of some academic experiment carried out decades ago, further development will surely be influenced by this Court's decision in the case at bar.

And even if the useful compound should be found patentable, the patentee would have no real sense of security if § 271 is interpreted to require licensing of competitors whenever the compound claim should fail. A potential competitor might succeed, perhaps by a more exhaustive literature search than was available earlier, to find "prior art" more pertinent than that found by the Patent Office, and thus invalidate the compound claim. Although the American Chemical Society seeks to process, abstract, and index the world's chemical literature, we are only too aware of the frailties of even this information system. For example, the Registry of Chemical Compounds does not include compounds comprehended within a generic disclosure but not actually described, nor compounds named in patents or other publications for which physical constants are not provided; nor patents of some countries; nor sales brochures or other lists of experimental chemicals, etc.

These gaps, if they be gaps, in the coverage of the available literature search services may some day be remedied. They do not appear to hamper the progress of pure science, but many a patent applicant has been surprised by a change in his patent position due to subsequently-discovered references.

"Obvious" chemical compounds for which there is no known use are a valuable resource, the exploration of which should be encouraged in the public interest. Whether a compound is patentable or not is a distinction important in patent law, but as to the single patentable new use it is a

distinction without economic significance. Consequently there is no justification for treating that single use differently, depending on the status of the product, in one case excluding competition in the product, in the other case requiring it.

III. THE IMPACT ON "INNOVATION"

A. Chemical Innovation is Important to the Nation

Research on chemical compounds and their uses has made countless contributions to our way of life. Notable have been contributions to human health and the production of food. In the field of agrochemicals (insecticides, herbicides, fungicides, nematicides, and plant growth regulators) there have been remarkable advances. Only a decade ago insect pest control required the use of highly persistent chemicals at rates of 1 to 3 pounds per acre. Today new chemicals, of greatly improved environmental safety, control major crop insects at rates ranging from 0.2 pound per acre to as low as 0.01 pound per acre. Selective herbicides such as propanil have changed the nature of agricultural labor and costs. Even so, in many parts of the world crop yields are inadequate, major portions of crops are destroyed by pests before harvest, and more is lost while the harvest is in storage. Much remains to be done, and there seems little doubt that safer and more effective chemicals can be found to help meet the needs of the hungry world population.

The search for new chemical uses is the first step in the innovation process. Business risk decisions pervade every step in research, development, production, federal registration, and marketing of a biologically active compound. These steps toward commercialization (together called "innovation"), cannot possibly be fostered by an interpretation of the law which would have the effect of putting added risk into business decisions.

The research phase of the innovation process should be based on as large a reservoir of chemical structures as possible, and surely should not exclude compounds just because they are

"known". If the newly discovered use of a compound with a structure previously reported or implied fills a societal need, the patentee should be enabled to earn a return on the patent property—a return that is fairly reflective of the value of the invention. A chemical molecule with no known use has no more social value than a chemical compound that has not yet been conceived. The total costs of innovation are scarcely different: the risk, the commitment, the capital, are the same. It is repugnant to the national interest in technology-based industrial progress, to establish by law a system whereby a usurper of a patentable use for an unpatentable compound can become a participant in a market without incurring any of the costs or risks of the discovery, research, and development of the chemical's use for that market.

Much has been written about the escalating costs of developing a new pesticidal chemical. It has been estimated that to take a new pesticide from discovery to full registration in the United States required 7-10 years and $10-20 million dollars (1977 figures).[4] Costs for pharmaceutical chemicals are even higher,[5] and current inflated costs are higher yet.

Last year the American Chemical Society analyzed[6] recent trends in research and development, innovation, and productivity in the United States, and offered recommendations for enhancing the technological strength of the United States. The statement described the innovative process and its underlying economics:

> Industrial innovation is a complex process usually involving many steps and many factors. Generally the most common process starts with the discovery of a new fact or

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[3] *Id.* at 197.

[4] *How Regulation is Impacting on Pesticide Research,* Farm Chemicals, Sept. 1978 at 26-34.

[5] R.W. Hansen, THE PHARMACEUTICAL DEVELOPMENT PROCESS: ESTIMATES OF DEVELOPMENT COSTS AND TIMES AND THE EFFECTS OF PROPOSED REGULATORY CHANGES IN ISSUES IN PHARMACEUTICAL ECONOMICS, (Chein, ed. 1979) at 151-187.

[6] *Innovation and Private Investment in R&D*, Chemical & Engineering News, April 30, 1979, at 36-44.

phenomenon resulting from a basic research program or occasionally from accidental observation. This is followed by an applied research program to find a use or an application of this discovery, or a completely unrelated research program to find a solution to an existing problem or need. Identification of a potential application is followed by a development process including, among other things, scale-up, long-term testing, toxicity or safety evaluation, and market surveys. The final step is commercialization, which involves investment in a new plant, market development, and establishment of a distribution system.

The driving force for the whole innovation process is the expectation of a satisfactory return on invested capital. If any factor in the process increases the overall cost or lengthens the time from the basic discovery to successful commercialization of a product, the return on investment will be decreased and the investment will appear to be less attractive. If investors even perceive at any stage in the innovation process that the return on investment will not be sufficient to justify the risk involved, no innovation will result. . . .[7]

The value of patent protection as an incentive to innovation is recognized virtually universally:

> Patents are granted on considerations of economic policy. The objective of patent protection is to promote industrial development by stimulating technical progress. According to the theory of the mechanisms of technical progress, *patent protection delays the beginning of the imitation phase* in the innovation process in order to assure that invention and innovation are economically worthwhile.[8] (emphasis added)

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[7] *Id.* at 38.

[8] Kunz-Hallstein, *The Revision of the International System of Patent Protection in the Interest of Developing Countries*, 10 International Rev. of Industrial Property and Copyright Law, 649, 652 (1979).

Whether a patent will in fact be an adequate incentive will depend on the scope of the protection afforded. It is becoming more and more widely recognized that the prospect of a position of exclusivity is essential for making the investment required to bring an invention from conception to commercial utilization. Two of the findings of the Harbridge House Study of utilization of government-owned patents highlight this fact:

> Government ownership of patents with an offer of free public use does not alone result in commercialization of research results.
>
> A low, overall commercial utilization rate of Government-generated inventions has been achieved; that rate doubled, however, when contractors with commercial background positions were allowed to keep exclusive commercial rights to the inventions.[9]

Universities, too, have come to appreciate that the mere publication of research results is insufficient to stimulate the further development of their discoveries so as to contribute to the public good:

> Universities are beginning to realize that any new technology which is open, available, and free to everyone will usually not qualify as a new commercial product. Almost every new invention (particularly those coming from a university), requires additional development before it is ready for the market. To this development cost must be added the costs of advertising, sales training, field support network, inventory, spares, etc., and this cost to the company can run up into the millions of dollars. No manager of a commercial firm, responsible for his company's profit and loss statement, will make that kind of an investment unless he has some assurance that another

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[9] Government Patent Policy Study, for the FCST Committee on Government Patent Policy. Contract No. 7-35807, as quoted in Government Domestic Review of Industrial Innovation, Subcommittee for Patent and Information Policy, Draft Report, February 6, 1979, U.S. Department of Commerce, at 12.

company won't be on the market with the same product at half the price six months after the new product is introduced! Without patent protection and a licensing function therefor, the university's chances of getting its research results to the market for use by the public is almost nonexistent.[10]

B. The Domestic Policy Review of Industrial Innovation Recognized the Innovation Implications of the "Use" Patent Controversy

In 1978 President Carter, concerned about the apparent decline in industrial innovation in the United States, initiated a Domestic Policy Review and established advisory committees to study various aspects of the problem. As a result the advisory Subcommittee for Patent and Information Policy offered several specific recommendations on how innovation might be stimulated.[11] Included was the recommendation that patent protection be available for use-specific formulations of a compound not itself patentable. The Subcommittee observed:

> Without such a possibility for effective patent support, discoveries of new biological uses for known compounds will not enter the innovation sequence because of the recognized high cost of innovation in these fields.[12]

IV. THE MEANING OF §271 IS CLEAR

A. The Plain Language of §271 Has Been Accepted for Over 25 Years

The plain reading of §271 has been relied upon since 1952 by researchers and inventors in the agricultural chemical field. Until the district court decision below, the patentability status of the active ingredient itself was not a major factor in

[10] Wootten, *University Licensing Operations*, 78 Patent and Trademark Review 3 (1980).

[11] Government Domestic Review of Industrial Innovation, Subcommittee for Patent and Information Policy, Draft Report, February 6, 1979, U.S. Department of Commerce.

[12] *Id.* at 16.

risk/investment decisions. If §271(d) was never intended to be so construed—as urged on behalf of Petitioners—the significance of its implications has evaded the attention of scientists, research directors, and legal scholars.

The legislative history and commentaries before and after the 1952 Patent Act continue to support the plain reading of §271. The overriding public interest is served by an affirmation of the text, of the intent of Congress, and of the circuit court below.

B. Compulsory Licensing of Use Patents Can Adversely Affect Research and Development Activity

As economic studies have shown, and as emphasized by the Domestic Policy Review, various disincentives to chemical R&D have already caused a diversion of effort from the search for new products.[13] Figures for the agricultural chemical industry for 1977 show that approximately 65% of R&D expenditure was for new product research;[14] employing over 5,000 people, of whom 38% had either a master's or a doctor's degree.[15] This highly professional trained cadre of scientists has an interest in the scientific scope of their work and in the public benefit of successful research. Scientists working in other areas of research are similarly interested in preservation of the increasingly tenuous incentives to the advancement of science and technology.

Although the effects of a reduction in the patent incentive cannot be quantified, we believe that any adverse impact on research and development in the United States should be avoided if possible. Other countries in the industrialized world are tending toward more effective patent incentives, and do provide protection to the discoverer of a new use of a known compound.

[13] Wooten, *supra* note 11.

[14] Hansen, *supra* note 5 at 30.

[15] Ernst & Ernst, *1978 Industry Profile Study*, National Agricultural Chemicals Association.

The stimulus to research and development, by providing the possibility of a fair return to the patentee based on the market value of the discovery, is in keeping with traditional incentive concepts, proven in this country; is fair to the patent holder; and supports the interest of the nation in technological advance and industrial strength.

CONCLUSION

The interpretation of § 271 of the Patent Act of 1952, as relied upon by the chemical community and as affirmed by the Fifth Circuit below, is supported by law and equity, and is in the interest of scientific research and innovation. The judgment of the Court of Appeals should be affirmed.

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MAR 21 1980

IN THE

Supreme Court of the United States

OCTOBER TERM 1979

No. 79-669

DAWSON CHEMICAL COMPANY,
CRYSTAL MANUFACTURING CORPORATION AND
CRYSTAL CHEMICAL COMPANY, *Petitioners*

v.

ROHM AND HAAS COMPANY, *Respondent*

On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

MOTION FOR LEAVE TO FILE BRIEF AND ANNEXED BRIEF AMICI CURIAE ON BEHALF OF SOCIETY OF UNIVERSITY PATENT ADMINISTRATORS AND THE COUNCIL ON GOVERNMENT RELATIONS

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MOTION OF SOCIETY OF UNIVERSITY PATENT ADMINISTRATORS AND THE COUNCIL ON GOVERNMENT RELATIONS FOR LEAVE TO FILE A BRIEF OF AMICI CURIAE

The Society of University Patent Administrators, Inc. (SUPA) and the Council on Government Relations (COGR) respectfully move this Court for leave to file instanter the accompanying brief in this case amici curiae. The consent of the attorney for the Respondent has been obtained but the attorneys for the Petitioners have refused to consent to the filing of a brief by the amici here. The motion for leave to file the Brief and the Brief are submitted on behalf of the Council on Government Relations, which is sup-

ported by 119 leading research universities, and the Society of University Patent Administrators, which is a professional society of individuals each of whom has some responsibility for administering inventions and patents in connection with some university and which counts approximately 120 members connected with over 90 separate universities.

Many of the institutions of higher education who have representatives in or which are directly connected with the movants are involved in transferring technology generated during the course of research conducted at such institutions to the public for its use and benefit. Since most of the inventions generated within the university sector arise from the basic research function carried out at those institutions they tend to be embryonic in nature and, therefore, require significant additional development by private parties to convert them to a form in which they are acceptable and useful to the public. The incentives provided by the patent system through licensing permit the universities to engage a commercial "partner" willing to expend the high risk capital necessary to the transfer of the embryonic university technology to the marketplace.

The significance of the universities' presence in innovation in the United States will be clearly apparent from the 1978 figures available from the National Science Foundation. In that year, of the six billion dollars spent for basic research in this country about three and one-half billion dollars (59.2%) was spent on research performed at the universities. In that same year, of the total research and development expenditure of 47.4 billion dollars in the United States about 5.9 billion (12.6%) was spent at universities.

The presence of the universities in innovation is even more significant when one is aware that the government supplies by far the major portion of the basic research funds at the universities and that 119 universities which are represented on the Council on Government Relations, one of the amici in this Brief, are the recipients of about 90%, or approximately three billion dollars, of the funds made available to higher education through contracts and grants for scientific activities.

It must be presumed that government research dollars are made available in the expectation of not only developing basic knowledge, but also in the expectation that funded research will lead to products, processes and techniques which will be useful and acceptable in all or part of our society to improve the well-being of the society in general. It must also be presumed, based upon the experience of many years at many universities, that the patent system is the key to the conversion of scientific knowledge into production benefiting human welfare.

Substantial numbers of the members of the Council on Government Relations and Society of University Patent Administrators are engaged in efforts to transfer the results obtained from basic research at the universities to the public, through licensing arrangements with commercial companies who accept the responsibility, including the investment of substantial capital at high risk, for developing the inventions. Such arrangement must, of course, be made under a sound patent position which has been established by or on behalf of the involved university since, by the very nature of their operation, universities do not engage in trade secret practices. Numbered among such pat-

ents are many in which the claims are cast in the same form as those in the patent at issue before the Court where a chemical entity is known and not patented but where a particular use of such chemical is the subject of the patent.

The Department of Justice has recognized that some kind of exclusive right may be necessary to insure that a firm will make the often risky investment that is necessary to bring an invention into production and develop a market for it. For this reason Deputy Assistant Attorney-General Ky P. Ewing Jr., testifying on S. 1250 before the Subcommittee on Science, Technology and Space of the Senate Committee on Commerce, Science and Transportation,* supported the granting to universities and small businesses of title to patents resulting from research sponsored and paid for by the Federal Government as consistent with the recent recommendations of President Carter on government patent policy.

Although the Council on Government Relations and Society of University Patent Administrators have no direct business interest in the outcome of the case before the Court, these organizations, on behalf of the universities which are represented in their membership, and on behalf of the public and the funding government agencies as well, are vitally concerned that the law made in this case should not discourage the transfer of technology and the major investments in development required for the private sector to bring the results of basic research conducted at the universities with both public and private funds to the public for its use and benefit.

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* Testimony of Ky P. Ewing Jr., November 21, 1979 at 16-17.

In the light of the foregoing facts and comments it is the considered opinion of the movants and their membership that the issue before the Court in this case has far reaching public interest implications. It is also the concern of the movants that the expressed considerations may not have been known to or considered by the parties to this case in their respective briefs and arguments. Accordingly, SUPA and COGR present to the Court this petition for leave to file the annexed brief *amici curiae* instanter.

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On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

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BRIEF ON BEHALF OF THE SOCIETY OF UNIVERSITY PATENT ADMINISTRATORS AND COUNCIL ON GOVERNMENT RELATIONS AS AMICI CURIAE

INTEREST OF AMICI CURIAE

The Society of University Patent Administrators, Inc. (SUPA) and the Council on Government Relations (COGR) are connected with colleges, universities, and associations for higher learning in the United States. The character of SUPA and COGR and their

interest in the question of law presented by this case are explained in their Motion for Leave to File a Brief as *Amici Curiae,* to which this Brief is annexed.

SUPA and COGR, because of their experience with the licensing of university and other institutional patents, strongly favor an affirmance of the decision herein by the Court of Appeals for the Fifth Circuit. It is believed that a reversal of that decision, with a reinstatement of the contrary decision by the District Court, would seriously interfere with the transfer of technology embodied in university patents to private companies for further development and commercialization. Experience has shown such technology transfers almost invariable require the incentive of an exclusive license. This case is viewed as presenting a fundamental question with respect to patent exclusivity, which may not be fully covered in the other Briefs submitted herein favoring affirmance.

QUESTION PRESENTED

Whether patent exclusivity for a process employing a product which is a non-staple not suitable for substantial noninfringing use extends to unauthorized sale of the non-staple product for use in the patented process.

ARGUMENT

I. The Nature of the Patent Right

A patent is a constitutionally validated grant, conferring on inventors (and patent owners by assignment) the right to exclude others from practicing their inventions, and the constitutional purpose underlying the patent system is to promote the progress of

the useful arts by rewarding the inventors with the power to exclude. *See* U.S. Const. Art I, § 8. An inventor or patent owner does not have to license his invention, nor is he required to make any use of it whatsoever. *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.,* 210 U.S. 405 (1908). By statute, every patent is "a grant to the patentee . . . of the right to exclude others from making, using, or selling the invention throughout the United States". 34 U.S.C. § 154.

II. The Scope of the Patent Right to Exclude

Pursuant to Section 112[1] of the Patent Laws,[2] a patent is required to conclude with one or more claims. It is the function of the claims to define the invention so as to distinguish it from the prior art. More specifically, it is the claims which must delineate the novel and unobvious features of the invention, thereby satisfying the requirements of Sections 102 and 103.

The claims of a patent are also the starting point for determining the scope of the patent right to exclude with reference to an alleged infringement. As stated in the leading Supreme Court case on the determination of patent infringement: "If accused matter falls clearly within the claim, infringement is made out and that is the end of it." *Graver Tank Co.* v. *Linde Air Products Co.,* 339 U.S. 605 (1949). How-

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[1] The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention. A claim may be written in independent or dependent form, and if in dependent form, it shall be construed to include all the limitations of the claim incorporated by reference into the dependent claim.

[2] All references herein to statutory sections are to the Patent Act of 1952, 35 U.S.C. §§ 100-293.

ever, as pointed out in the same decision, the scope of the patent extends beyond the claims. In the final analysis, the scope of the patent is determined by the law of infringement, and by the relief obtainable in a Federal Court against an infringer. This includes not only the right to damages under 35 U.S.C. § 284, but also, and even more importantly, the right to injunctive relief. Section 283 provides that injunctions in patent cases shall be granted "to prevent the violation of any right secured by patent". Further, certain of the important rights secured by patent are now defined by Section 271 of the Patent Act of 1952.[3]

[3] § 271. Infringement of patent

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement.

III. Infringement Outside the Literal Claim Language But Inside the Patent Right to Exclude

The ambit of the patent right to exclude is not limited to literal infringement of the claims. There are two principal kinds of infringement which represent an extension of the claims, but, which nevertheless, are inside the patent right to exclude. These are infringement by equivalents[4] and contributory infringement.

The doctrine of contributory infringement arose as a necessary corollary for protection of the exclusivity of the patent. It was an expression of the old common law doctrine of joint tort feasors, making jointly liable with the direct infringer of the patent one who aids or abets the wrongful act of infringement. 52 AM. JUR., *Torts*, § 114 (1944). The acts of the party guilty of contributory infringement are outside the literal language of the claims but inside of the scope of the patent. A typical fact situation was one in which the contributory infringer sold a component of a patented combination which had no other use than in infringing the patent, and the contributory infringer had knowledge of this fact and therefore the intent to cause the infringement was presumed. *See, e.g., Leeds & Catlin Co.* v. *Victor Talking Machine Co.*, 213 U.S. 325 (1909) [hereinafter cited as *Leeds & Catlin*].

After a period in which the encroaching doctrine of patent misuse threatened to completely extinguish contributory infringement as an enjoinable offense, the

[4] Infringement on this basis is determined by the doctrine of equivalents, which is necessary to protect an invention against piracy. *Graver Tank Co.* v. *Linde Air Products Co.*, 339 U.S. 605 (1949). As stated in that case: "The essence of the doctrine [of equivalents] is that one may not practice a fraud on a patent". Id. at 607, 608.

Patent Act of 1952 in Sections 271(b) and 271 (c) reestablished the law of contributory infringement of a carefully defined basis. Acts of active inducement of infringement are enjoinable under Section 271(b), but the sale of a product for use in practicing a patented invention is enjoinable only when all of the conditions of 271(c) are met. Within the confines of these two sections of the statute, Congress has approved the policy considerations underlying prohibition of contributory infringement. Mr. Justice Frankfurter called it "an expression both of law and morals", and said it "is accredited by legal history as well as ethics". *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661, 677, 678 (1944) (Frankfurter dissenting) [hereinafter cited as First *Mercoid*]. Judge Taft viewed the doctrine of contributory infringement as being on a similar footing as this court has pointed out with respect to the doctrine of equivalents, stating that: "If this helpful rule [of contributory infringement] is not to apply to trespass upon patent property, then, indeed, the protection which is promised the inventor is a poor sham." *Thompson-Houston Electric Co.* v. *Ohio Brass Co.,* 80 F. 712, 721 (6th Cir. 1897).

IV. Some Misuse Decisions Have Erroneously Assumed That the Patent Right to Exclude is Strictly Limited to the Literal Language of the Claims

In *Motion Picture Patents* v. *Universal Film Mfg. Co.,* 243 U.S. 502 (1917) it was stated that "the scope of every patent is limited to the invention described in the claims", and that the claims "so mark where the progress claimed by the patent begins and where it ends that they have been aptly likened to the

description in a deed, which sets the bounds to the grant which it contains." Id. at 510. Neither the doctrine of infringement by equivalents nor the doctrine of contributory infringement could exist at all if the scope of the patent were strictly limited to the literal language of the claims. The granting clause of a deed does set the limits of the property, but this analogy is misleading with respect to patent claims.

Justice Brandeis recognized the correct view in *Carbice Corp.* v. *American Patent Development Corp.,* 283 U.S. 27 (1931) [hereinafter cited as *Carbice*]. Although applying the doctrine of patent misuse to prevent enforcement of a patent, the continued viability of the doctrine of contributory infringement was recognized. In referring to the holding of contributory infringement in *Leeds & Catlin,* Justice Brandeis observed that "the case at bar is wholly unlike Leeds . . . which . . . was an ordinary case of contributory infringement." *Carbice Corp.* v. *American Patent Development Corp., supra,* 283 U.S. at 34.

In First *Mercoid,* Justice Douglas criticized the result of *Leeds & Catlin,* and characterized the phonograph record, the sale of which had been enjoined, as "an *unpatented* part of the patented phonograph." *Mercoid Corp.* v. *Mid-Continental Investment Co.,* 320 U.S. 661, 668 (1944) (emphasis added). It is respectfully submitted that this use of the term "unpatented" should be understood as "labeling" to achieve a result. It perpetuates the error of *Motion Picture Patents, supra,* that the proper bounds of a patent are limited to direct and literal infringement of the claims.

Under Section 271(c), the sale of the phonograph record by the defendant in *Leeds & Catlin* would be

clearly an enjoinable offense, and, therefore, perforce within the statutorily defined scope of the patent. Even the "residuum" of the doctrine of contributory infringement, which Justice Douglas assumed to be left after First *Mercoid,* is necessarily an enforcement of the patent outside of the literal language of the claims and would include a right to enjoin the sale of the so-called "unpatented" product for use in practicing the patented invention.

V. Section 271 and the Function of the Law of Patent Infringement

The Constitution has assigned to Congress the primary responsibility for setting up the patent system, and fulfilling its dual purposes of promoting the progress of the useful arts and rewarding the inventor. *Graham* v. *John Deere Co.,* 383 U.S. 1, 6 (1966). *See also, McClurg* v. *Kingsland,* 42 U.S. (1 How.) 202-206 (1843); and *United States* v. *Duell,* 172 U.S. 576, 583 (1899).

In enacting Section 271 of The Patent Act of 1952, Congress exercised its Constitutional authority to re-establish the law of contributory infringement. The acts of infringement proscribed by Sections 271(b) and 271(c) are enjoinable under Section 283. It therefore follows from the analysis set out above that such enjoinable acts of contributory infringement are within the patent right to exclude. Section 271(c) clearly defines the requirements for enjoining the sale of a product which is sold for use in a patented method or combination: (1) the product (component or material) must be a material part of the invention; (2) the alleged infringer must know that the product is especially made or adapted for use in infringement of the patent; and (3) the product must not be a staple article

or commodity of commerce suitable for substantial noninfringing use.

As previously developed in this Brief, it is the function of the law of infringement to protect the exclusivity provided by a patent. Congress has now decreed that the sale of a product, which is material to the invention, which has no other use than infringing the patent, and which is sold with such knowledge should be and is the exclusive right of the patent owner.

VI. Section 271(d) Clearly States That the Acts Done by the Patent Owner in This Case Are Not Misuse

Section 271(d) states that a patent owner may properly derive revenue from the sale of a product which has no other use than infringing the method or combination covered by his patent, and the patent owner may properly license another to sell such a product. Further, the patent owner is authorized to bring suits for contributory infringement to enforce the rights protected by 271(b) and 271(c). In doing these things the patent owner is acting within the statutorily defined scope of the patent right to exclude, and cannot be deemed guilty of misuse of his patent. There is simply no extension of the patent to which misuse law could apply.

It is true that a product having no use other than infringing a patent does not directly infringe the claim of a method patent or a combination patent. However, it is not the product *per se* that is within the scope of the right to exclude, but rather the act of selling the product when all the conditions of Section 271(c) are met. It is this act of sale which is enjoinable. In the present case, Rohm & Haas sells propanil, a product

which has no other use in than in infringing its method patent, covering the use of this chemical for selective inhibition of the growth of weeds. In selling this product, Rohm & Haas is merely performing an act authorized by Section 271(d)(1), viz. deriving revenue from the sale of propanil in such a way that if done by another without its consent would constitute contributory infringement under 271(c). Manifestly, its statutorily authorized right to derive revenue from such sales would be destroyed if Rohm & Haas was compelled to offer a license to any competitor who wanted to sell propanil for use infringing the Rohm & Haas patent. On the contrary, instead of being compelled to grant such licenses, Rohm & Haas is entitled, as it has done, to file suit for enforcement of its patent against a contributory infringer who is violating Section 271 (c), and to obtain injunctive relief under Section 283.

The fact situation involved in the present case is not uncommon. It applies potentially to the large number of chemical compounds for which no use at all has as yet been found. More generally, it applies to so-called "use" inventions where the only direct infringers are numerically numerous members of the public. Such inventions can only be commercialized by sale of a product especially adapted for use in the patented invention. This situation comes up frequently in connection with inventions made in university research laboratories. Without the incentive of patent exclusivity these inventions, for the most part, would not be developed and commercialized by private industry.

University researchers, understandably, wish to promptly publish the results of their research. In publishing, chemical compounds, which then are of un-

known utility, are disclosed in the literature and become part of the prior art. Since they have become part of the prior art, they cannot be patented as compounds *per se*. Frequently, further research develops an important use for such a compound of previously unknown utility, a use having substantial public benefit. Since there has been an earlier disclosure of the compound itself, it is then impossible to obtain a patent on the chemical compound *per se*; however, a patent may be obtained on the specific use of the compound. In many such cases, if the investment necessary for commercialization of the compound is to be made, it is important that the exclusivity provided by Section 271 (c) of the Patent Act of 1952 be available; that is, that the exclusivity prevent the utilization of the invention by competitors in the sale of the compound for the specific use. Unless this exclusivity is available, the "compulsory licensing" prospect will not provide the incentive to attract the requisite resources to commercialize the use of these compounds.

CONCLUSION

This case is believed to give this Honorable Court an important opportunity to clarify the proper scope of a patent. Both infringement by equivalents and contributory infringement are outside of the literal language of the claims of a patent but should be regarded as within the patent right to exclude. It is the law of infringement which defines the scope of the patent. The sale of an equivalent of a patented combination is enjoinable, as is the sale of a product having no use other than infringing the patent, providing the other requirements of Section 271(c) are met. The prohibition of such sales is therefore part of the ex-

clusivity guaranteed by the patent grant. Such exclusivity is the essence of a patent, and should not be eroded by an application of misuse considerations to product sales which have been made enjoinable by Congressional declaration.

For the reasons stated above, the judgment of the Fifth Circuit Court of Appeals should be affirmed.

Respectfully submitted,

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MOTION FILED
MAR 22 1980

IN THE

Supreme Court of the United States

October Term, 1979

No. 79-669

DAWSON CHEMICAL COMPANY, CRYSTAL MANUFACTURING CORPORATION and CRYSTAL CHEMICAL COMPANY,
Petitioners,

v.

ROHM AND HAAS COMPANY,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE AND BRIEF AMICUS CURIAE OF THE NEW YORK PATENT LAW ASSOCIATION IN SUPPORT OF THE RESPONDENT

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MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE OF THE NEW YORK PATENT LAW ASSOCIATION IN SUPPORT OF THE RESPONDENT

The New York Patent Law Association hereby respectfully moves pursuant to Rule 42 for leave to file the accompanying brief *amicus curiae* herein on behalf of respondent. The consent of the attorney for the respondent has been obtained. The consent of the attorney for the petitioners was sought but was refused. Copies of the letters

concerning the foregoing consent and refusal have been filed with the Clerk.

The New York Patent Law Association is an association of over one thousand attorneys in private and corporate practice in the fields of patent, trademark and copyright law in the New York metropolitan area. Our Association is concerned with the advancement of the arts and sciences through an effective patent system as well as through effective application of the Antitrust Laws. This case presents an important question requiring careful application of both the patent laws and complimentary antitrust principles to effectuate the Constitutional mandate "to promote the progress of science and useful arts," Article I, Section 8. The accompanying brief addresses that issue from the point of view of the Association's public and professional interest in furthering that goal.

It is of particular interest to the Association that this case presents to the Court for the first time issues with respect to the Congressional intent and purpose underlying enactment of Section 271 of the Patent Laws concerning contributory infringement, because the Association was instrumental in drafting the first legislation seeking to define and remedy contributory infringement. That legislation was introduced at the Association's request as H.R. 5988 in the Eightieth Congress and was re-introduced as H.R. 3866 in the Eighty-First Congress. Members of the Association testified in support of it. Subsequently, in 1950, the National Council of Patent Law Associations, composed of all of the principal patent law associations in the United States, together with a number of industrial associations,

formed the Coordinating Committee on Revision and Amendment of the Patent Laws to assist Congress in codifying the patent laws. Members of this Association participated significantly in the work of the Coordinating Committee and were instrumental in seeking enactment of the present law, Title 35 U.S. Code, including Section 271. Hence the Association has an additional interest born of authorship in seeking to assist the Court upon this important issue.

Apart from this public and professional interest, we have no interest in the outcome of this case.

Respectfully submitted,

BARRY D. REIN
Attorney for Amicus Curiae

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On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

BRIEF AMICUS CURIAE OF THE NEW YORK PATENT LAW ASSOCIATION IN SUPPORT OF THE RESPONDENT

Interest of Amicus

The interest of amicus is set forth in the foregoing motion for leave to file this brief.

Question Presented

Whether the owner of a patent for a new use of a known non-staple chemical compound having no other commercial use who sells the compound to users with instructions for applying it to that use, is required to license all competitors to manufacture and sell the identical compound in order to render his patent enforceable.

Summary of Argument

The plain language of 35 U.S.C. Section 271 defines Rohm and Haas' conduct as not constituting patent misuse. The construction sought by the Government and Dawson would impose a gloss on the statute subjecting the patentee's expressly recited rights to license and sell (Section 271(d)(1) and (2)) to an implied requirement of compulsory licensing.

It would also emasculate completely Section 271(d)(1), for a patentee's mere sales of a component, less than all, of his patented invention have *never* constituted misuse; the sole effective purpose of that provision is to except from the misuse doctrine sales of a component where the implied license attendant the sale is the only license granted.

The legislative history of Section 271 establishes the intent of the drafters and of Congress to place beyond the scope of the misuse doctrine a patentee's sales of material, non-staple components of a patented process where the implied license attendant the sales are the only licenses granted. The clear line drawn by Congress was between that conduct, which is permissible within the scope of Section 271(c), and attempts to control staple articles of commerce beyond the scope of Section 271(c), which would constitute misuse. Congress in 1951 considered the enactment of both restrictions upon licensing and compulsory licensing that would bear on Rohm and Haas' conduct. It rejected them. That rejection and the legislative history of Section 271 in its entirety overwhelmingly provides the "clear signal" of Congress required by this

Court to change the pre-existing law as it had been established in *Mercoid, Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972).

The public policy of the Antitrust Laws against tying does not require compulsory licensing here because the patented process and the product propanil are so inextricably interrelated in logic and in the marketplace as to constitute but a single product. Tying, on the other hand, requires that there be separate tying and tied products. The rights granted under the patent laws have a direct bearing on the issue of product definition.

Section 271 constitutes a legislative determination, as applied to this case, that propanil for use in the patented method is within the patent grant. The result is the same as if the patent in issue contained a separate claim to propanil *per se* for use in the claimed method, assertible against sellers of the compound for use in that method. Propanil is not "unpatented" in that sense; it is within the legitimate scope of the patent grant. Hence no extension of the grant is involved here that would warrant the result by Dawson and the Government.

The construction of Section 271 sought here by the Govrenment and Dawson would not benefit rice farmers or the public generally. It may, on the contrary, tend to deprive them of the benefits of innovation and increase rather than decrease the cost of agricultural products. It would additionally burden the courts with a wholly new class of litigation to determine a reasonably royalty in each specific instance.

ARGUMENT

I.

The Court of Appeals correctly held that Section 271 expressly sanctions Rohm and Haas' conduct.

Section 271 is the section of the patent law defining a patent owner's remedy for infringement. Entitled "Infringement of Patent," it contains four paragraphs (a) through (d). Paragraph (a), not in issue here, simply codified preexisting law as to so-called "direct" infringement. Paragraph (b) further includes as an infringer anyone who "actively induces infringement of a patent."

Paragraph (c) recites that "whoever sells

a component

> of a patented machine, manufacture, combination or composition

or

a material or apparatus

> for use in practicing a patented process,

constituting a material part of the invention,

> knowing the same to be especially made or especially adapted for use in an infringement of such patent, and

not a staple article or commodity of commerce suitable for

> substantial noninfringing use, shall be liable as a contributory infringer."

Paragraph (d), which complements paragraph (c),* provides that "[n]o patent owner otherwise entitled to relief

* The Court of Appeals correctly noted that paragraph (d) is "ancillary to" paragraphs (b) and (c), 599 F.2d 685, 703, n.24, quoting from the official Revisory Notes to Section 271.

for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done *one or more* of the following:

(1) derived revenue from acts which if performed by another without his consent would constitute *contributory infringement* of the patent;

(2) licensed or authorized another to perform acts which if performed without his consent would constitute *contributory infringement* of the patent; or

(3) sought to enforce his patent rights against infringement or *contributory infringement.**

It is undisputed here that propanil, the herbicidal use of which is the subject of Rohm and Haas' patent, is a "material," "for use in practicing a patented process," "constituting a material part of the invention," and "not a staple article or commodity of commerce suitable for substantial non-infringing use," 35 U.S.C. §271(c), and thus directly within the carefully circumscribed scope of "contributory infringement" as that term is incorporated in each of (1), (2) and (3) of Section 271(d). Rohm and Haas' conduct therefore falls squarely within the express authority of Section 271(d): it derives revenue from the sale of propanil, an act which, if performed by another, would constitute contributory infringement as authorized by (1); and it has sought to enforce its patent rights against contributory infringement as authorized by (3).**

* All emphasis herein is added unless expressly noted.

** A purchaser may resell propanil purchased from Rohm and Haas because the sale, conveying by implication the right to use the thing purchased in the patented process, exhausts Rohm and Haas'

(footnote continued on next page)

The statutory language on its face authorizes Rohm and Haas to do any one, or two, or all of the foregoing acts without being "denied relief or deemed guilty of misuse or illegal extension of the patent. . . ." Yet it is the crux of Dawson's and the United States' position that merely by doing those acts, Rohm and Haas *is* guilty of misuse.

The United States argues thus that Rohm and Haas, although it has not committed any acts other than those enumerated, has done more—it has "license[ed] the use of its process on condition that the licensees buy unpatented propanil from Rohm and Haas," and that Section 271 is "silent" as to the legality of that behavior (GB-13).*

Perceiving on one hand this "silence," Dawson and the United States find on the other hand a statutory requirement that if Rohm and Haas chooses to sell propanil, it must license *all* of its competitors to do so at a reasonable royalty. But then it must also be true that if Rohm and Haas did not sell propanil but instead licensed another to do so, it would equally be subject to compulsory licensing. In each case purchase of the seller's propanil would be "tied," in the Government's and Dawson's view, to the right to practice the patented method. In each case the public's choice among propanil suppliers is equally limited and the foreclosure of manufacturing competitors

rights in it. It may also be said, therefore, that Rohm and Haas has authorized others (vendees) to perform acts which, without its consent, would constitute contributory infringement, as sanctioned in Section 271(d) (2).

* "GB" refers to the brief of the United States as amicus curiae and "DB" refers to the brief of Dawson et al.

equally complete. Equally, then, the statute would compel extending licenses on reasonable terms to all comers upon any attempt to license one.*

This reading of the statute is inconsistent with its plain meaning, for it would engraft upon it (1) a limitation in Section 271(d)(2) precluding grant of an exclusive license, although nothing in the language suggests such a limitation, and (2) a proviso that the rights to derive revenue and to license in (d)(1) and (d)(2) are conditioned upon granting compulsory licenses to all at a reasonable royalty. Absolutely nothing in the 1952 patent act or its legislative history suggests an intention by Congress to require compulsory licensing of *any* patents.** Surely if Congress had intended two of the three rights expressly granted the patentee by Section 271(d) to result in compulsory licensing, it would have expressly so provided.

Even more compelling is the fact that to read Section 271(d)(1) as the Government and Dawson read it would result in its complete emasculation. The right of a patentee or anyone else for that matter to sell goods is derived not from the patent law but from the common law. This is true whether or not the goods are part of a patented combination or a component for use in a patented process. *No case* has ever held merely that a patentee may not sell such a part or component. All that *some* have held is that such sales constitute misuse if the implied licenses attendant the sales are the only licenses granted.

* Dawson implicitly agrees with this conclusion for its list of ways in which Rohm and Haas could exploit the patent does not include licensing any propanil manufacturers unless it licenses all of them (DB-30).

** Importantly, Congress in enacting the 1952 Patent Act expressly rejected a proposal to make compulsory licensing available as a remedy for improper use of a patent, see pages 24 *et seq., infra.*

The only conceivable purpose and meaning of the provision is therefore to shelter that type of sale, within the scope of Section 271(c), from application of the misuse doctrine.* If the provision is not read as placing such sales, including Rohm and Haas' sale of propanil, beyond the ambit of the misuse doctrine, then it will be of no force whatsoever. A statutory provision should not be construed so as to render it a nullity. This Court has noted that "[i]t is our duty 'to give effect, if possible, to every clause and word of a statute rather than to emasculate an entire section, as the Government's interpretation requires,'" *United States* v. *Menasche,* 348 U.S. 528, 538-539 (1955) (citation omitted); see also *F.T.C.* v. *Manager, Retail Credit Co., Miami Br. Off.,* 515 F.2d 988, 994-995 (D.C. Cir. 1975); *Uptagrafft* v. *United States,* 315 F.2d 200, 204 (4th Cir. 1963).

The Government argues, in an effort to reconcile its construction with the necessity to give meaning to each statutory provision, that "in accordance with subsection (d)(1) the patentee is still free to obtain revenue from his sales of the unpatented component. He is limited only by the condition that he cannot arrogate to himself all these sales by tying his grant of a license to the purchase from him of the unpatented component" (GB-15). The fatal defect in this argument is that it is not subsection (d)(1) but the common law that permits a patentee to obtain revenue from selling so-called "unpatented" components. Subsection (d)(1) is superfluous unless read to permit such sales without requiring the patentee to grant licenses apart from the sales.

* This is fully consistent with the goals of antitrust policy reflected in the misuse doctrine for reasons set forth at pages 26 *et seq., infra.*

II.

The Court of Appeals correctly held that the legislative history of Section 271 confirms the intent of Congress to sanction Rohm and Haas' conduct.

As set forth in amicus' motion to file this brief, *supra,* this Association drafted the legislation, first introduced as H.R. 5988 in the Eightieth Congress, in 1948, which with minor changes became Section 271. That legislation was introduced again in the Eighty-First Congress as H.R. 3866 and in the Eighty-Second Congress as part of H.R. 3760, the patent law codification bill. Testimony with respect to H.R. 5988 and successor bills was presented at length by members of this Association.* Together with the testimony of industry representatives and the Government, it formed the basis for Congress' understanding of the proposed legislation.

The essence of the testimony was that as a result of abuses of the judicially fashioned right of a patentee to control contributory infringement, a line of decisions of this

* Contributory Infringement in Patents—Definition of Invention: Hearings on H.R. 5988, H.R. 4061 and H.R. 5248, before Subcommittee on Patents, Trademarks and Copyrights of the House Committee on the Judiciary, 80th Cong., 2d Sess. (1948), p.16 (hereinafter "1948 Hearings"). H.R. 5988 was the first bill drafted by this Association to revive a remedy for contributory infringement. The "last section" referred to, Section 5, was essentially identical to the present Section 271(d); the first four sections with minor changes became paragraphs (a)-(c) of Section 271. The same bill was introduced in 1949 as H.R. 3866, see Contributory Infringement: Hearings on H.R. 3866 before Subcommittee No. 4 of the House Committee on the Judiciary, 81st Cong., 1st Sess. (1949) (hereinafter "1949 Hearings"), and again in 1951 as part of H.R. 3760 to recodify the entire patent law, see Patent Law Codification and Revision: Hearings on H.R. 3760 before Subcommittee No. 3 of the House Committee on the Judiciary, 82d Cong., 1st Sess. (1951) (hereinafter "1951 Hearings"),

Court beginning in *Carbice* and culminating in *Mercoid* had unduly eroded that doctrine by an overbroad application of the countervailing doctrine of patent misuse, and therefore that Congress should draw a clear line between actionable contributory infringement and proper application of the misuse doctrine.* The line sought to be drawn by the proposed bill was one permitting a patentee to control a carefully circumscribed class of non-staples but preserving the misuse doctrine with respect to staples. That line was explained and defined throughout the three years of testimony with particular reference to the *Mercoid* cases. An appreciation of the holdings of those cases *as they were understood by the members of the congressional subcommittees* is therefore essential to an understanding of the purpose of Section 271(d).

Both *Mercoid* cases, decided on the same day, arose out of efforts by Mid-Continent and its exclusive licensee Minneapolis-Honeywell to enforce patents covering a home heating system against Mercoid. In each instance, the patent sought to be enforced covered a combination of elements, and in each instance Honeywell, Mid-Continent's exclusive licensee, did not sell the entire combination covered by the patent but sold components of it having no use other than in the infringing combination. Honeywell announced in advertising and otherwise that purchasers of the components would automatically receive licenses to make and use the patented combination. Mercoid, the accused

* *Carbice Corp* v. *American Patents Development Corp.*, 283 U.S. 27 (1931). *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944) (hereinafter "Mercoid I"); *Mercoid Corp.* v. *Minneapolis-Honeywell Reg. Co.*, 320 U.S. 680 (1944) (hereinafter "Mercoid II").

contributory infringer, likewise merely manufactured components, less than all of the claimed combination, having no use other than in infringing the patent.

The result in both cases was clear; the patentee Mid-Continent and its licensee Honeywell were precluded from enforcing the patent, and Mercoid's claims were granted for relief under the antitrust laws. The several opinions, concurring opinions and dissents were not as clear and, as predicted by Mr. Justice Roberts, 320 U.S. at 674, engendered much confusion among members of the bar and inconsistency in the decisions of lower courts. Thus, on the one hand, Mr. Justice Douglas, speaking for the majority in *Mercoid I,* stated:

> "... we assume for the purposes of this case that Mercoid was a contributory infringer and that respondents could have enjoined the infringement had they not misused the patent for the purpose of monopolizing unpatented material. Inasmuch as their misuse of the patent would have precluded them from enjoining a direct infringement they cannot stand in any better position with respect to a contributory infringer. Where there is a collision between the principle of the Carbice case and the conventional rules governing either direct or contributory infringement, the former prevails." 320 U.S. at 668-669 (Citation omitted)

This suggests that the Court would have enforced the patent against Mercoid but for the fact that Honeywell, the exclusive licensee, was itself selling less than all of the patented combination and attempting thereby to license only those

who purchased the unpatented component from it or its manufacturing sublicensees.*

As an additional and more expansive basis for the Court's holding, however, making reference to the Court's consistent holdings "that the owner of a patent may not employ it to secure a limited monopoly of an unpatented material used in applying the invention," 320 U.S. at 664, Mr. Justice Douglas stated:

> ". . . the competition which is sought to be controlled is not competition in the sale of the patented assembly but merely competition in the sale of the unpatented thermostatic controls." 320 U.S. at 667.

This language suggested that any attempt to enforce or license a patent beyond the scope of its claim was impermissible, *even though such enforcement is the essence of contributory infringement.*

It is the Government's and Dawson's view, as we understand it, that Section 271 was intended merely to reverse the latter dictum, and it is true that testimony was presented to Congress that Section 271(d) was necessary to dispel the confusion resulting from *Mercoid I* and to reinstate to any degree the remedy against contributory infringement.

* This is mirrored in the dissenting opinion of Mr. Justice Frankfurter, 320 U.S. at 676:

> "The court holds in effect that the owner of a patent who exacts, as the condition of a license, that unpatented materials used in connection with the invention shall be purchased only from the licensor cannot obtain relief from equity against one who supplies such unpatented materials even though the unpatented appliance was not for common use but was designedly adapted for the practice of the invention, but when so used did not involve an infringement of the patent. The decision is thus merely an appropriate application of what has come to be known as the doctrine in the *Carbice* case, 283 U.S. 27. In this view I concur."

It is equally clear, however, that the members of the successive congressional subcommittees, all lawyers, thoroughly understood the intention of the drafters of Section 271(d) to reverse the specific holding in *Mercoid* as well, namely that a suit for contributory infringement is barred if the patent owner is selling less than all of the claimed invention and refuses to grant licenses independently of his sales. It is that inescapable understanding and intent that sanctions Rohm and Haas' conduct in this case.

A. Congress intended Section 271 to reverse not only the dictum in *Mercoid* but its direct holding as well.

Congress' understanding of and intent to undo the *holding* in *Mercoid* was reflected in the testimony of Theodore S. Kenyon, a member of this Association:

> "As a result of [*Mercoid*] and similar decisions, great doubt has been cast upon the enforceability of combination and so-called use patents *where the patent owner was engaged in manufacturing the essentials of the combination or the special ingredient used in the patented process,* but where the claims were not literally infringed until these parts or supplies were combined with others or used in a particular manner by the ultimate purchaser."*

With almost clairvoyant application to the precise case before this Court, Mr. Kenyon continued:

> ". . . in the chemical industry, a great many very valuable 'use patents' have been granted for inven-

* 1948 Hearings, p. 17.

tions for the first time making useful some hitherto known, but commercially useless, ingredient. These inventions have given rise to new industries or the expansion of old industries in the manufacture and sale of these special ingredients for the new and useful purpose. Obviously the ingredients themselves could not be patented per se because they had already been known or described in textbooks. The real invention lay in their utilization to achieve new and unexpected results. The 'misuse of patents' doctrine has presented to the owners of such patents the alternatives of *either giving up the manufacture of these special ingredients or in effect dedicating their patents to the public. It is plain that neither of these alternatives is in the public interest.*

The bill which you have presented draws a line between the sale of staple articles having actual commercial noninfringing use, on the one hand, and those special components or ingredients which are particularly made or adapted for use in the infringing combination and are not suitable for actual commercial noninfringing use, on the other hand; and it provides that the sale of parts or ingredients of the latter type without the consent of the patent owner constitutes a contributory infringement of the patent, and *furthermore that the sale of such parts or ingredients by the patent owner himself shall not constitute a misuse of his patent.*''*

Although the Department of Justice strongly disapproved of Section 5 of the proposed bill (corresponding to the present Section 271(d)) in that it would "negate much of the existing body of case law which has operated to

* 1948 Hearings, p. 18.

prevent illegal extension of the patent grant . . . ,"* the Navy Department voiced its approval precisely in order to foster the very conduct that the Justice Department opposed, i.e., the bill

> ". . . would lend an incentive to the patent owner to go into production when the field might be saturated with only a few hundred machines, *if, as a result of producing the machines, probably at little or no profit, he could be assured of a market for the parts or material, peculiar to the patented structure but upon which no separate patent may be obtained.*
>
> Inasmuch as the bill makes clear that staple articles and commodities of commerce, not especially made or adapted to use in a patented invention, and suitable for actual commercial use are outside its scope, it would appear that both the public and the Government are amply safeguarded, if the doctrine is reestablished."**

The Committee's specific awareness of the drafters' intent to overturn the *Mercoid* holding with respect to a patentee's so-called "tie-in" sales was equally clear in 1949. In a lengthy discussion of *Wallace* v. *Holmes,* 29 Fed. Cas. 74, No. 17,100 (CC Conn. 1871), holding that there was contributory infringement of a patent on the combined base, burner and chimney of a kerosene lamp by defendant's sales of all parts except the chimney, Congressman Bernhard stated:

> "Mr. Bernhard. I did not mean the defendant; I meant the patentee. In other words, suppose that the patentee was not interested in selling the complete article for which he had a combination patent, but was interested only in the sale of one of the component

* 1948 Hearings, p. 69.

** 1948 Hearings, p. 33.

items, the sale of the novel burner, and suppose he sold the novel burner to the public *with the condition that those who bought his burner would be permitted to use his combination patent by coupling it together with these other articles which they could buy in any store.*

Mr. Rich. Well, Mr. Bernhard, you are importing into this situation now an angle which was developed much later on, and which has nothing whatever to do with the problem of contributory infringement as such. What you are thinking of is the misuse situation, and I will come to that later."*

Mr. Rich then explained Section 5 of the proposed legislation:

"Subsection (a) [271(d)(1)] above refers to cases like the Lamp case *or the Mercoid case where the patentee has been in the business of selling less than the entire invention claimed and has been making a profit out of it; that is, derived revenue.*

Subsection (b) [271(d)(2)] refers to this type of situation: Suppose the patentee of the lamp had granted a license to somebody to make the lamps without chimneys or, as actually was the case, in the Mercoid situation, the patentee licensed people to make these switching units which had no other use except in the case of this invention, and collected royalties.

In connection with subsection (c) [271(d)(3)], there have been cases recently following the Mercoid case, in which the courts have held that merely bringing a suit is a misuse and that you are out of court on a a motion to dismiss.

Mr. Bernhard. You also lose your patent.

Mr. Rich. No; you do not lose your patent because it is a case of the application of the unclean-hands doctrine. The courts have said that you can wash your

* 1949 Hearings, p. 6.

hands when you have remedied the situation and have stopped misusing your patent and that you may then come back to the courts which may then possibly grant you a recovery.

Mr. Boggs. How could you do that?

Mr. Rich. *By changing your method of doing business, perhaps, if practical. In the Lamp case, for example, the lamps were sold with chimneys on them.*"*

Opposition to the bill was again voiced in 1949 by Mr. John C. Stedman of the Antitrust Division, Department of Justice, whose "most serious objections" again went to proposed Section 5. Mr. Stedman testified correctly that the effect of that section:

". . . is to permit a patentee to sell unpatented parts for a device or composition covered by his patent or sell unpatented materials or apparatus for use with a process patented by him, *and at the same time prohibit his competitors, by suit for infringement, from selling such unpatented materials in competition with him.*"**

Mr. Stedman's testimony together with that of the bill's proponents thus clearly framed to the Subcommittee the holding in *Mercoid* that the proponents sought to overturn; it was not merely the dictum to the effect that there was no residuum left of the contributory infringement doctrine, but rather its holding prohibiting sales of a material, non-staple component where no licenses to use were granted apart from the implied license attendant the sales.

Lest there be any doubt that the congressmen understood this distinction and the intent of the drafters, it is dispelled by the following colloquy:

* 1949 Hearings, p. 14.

** 1949 Hearings, p. 52.

"Mr. Willis. The Supreme Court said in the Mercoid-Mid-Continent case:

> 'Minneapolis-Honeywell in advertising its stoker switches stated that the "right to use" the Cross system patent was "only granted to the user" when the stoker switches of Minneapolis-Honeywell were purchased from it and used in the system. There was ample evidence to sustain the findings of the district court that respondents endeavored to use the license agreement so as to prevent the sale or use of combustion stoker switches in these heating systems unless they were the switches made by Minneapolis-Honeywell and purchased from it or its sublicensees.'

Do you not think that probably that influenced the Supreme Court more than the fact that they assumed that the switch had no other purpose than for infringing uses? Suppose that element had not existed and suppose they had not participated in those acts?

Mr. Rich. What element?

Mr. Willis. *The fact that the right to use was predicated solely upon the purchase of the element from them.*

Mr. Rich. *That was the thing essentially which they regarded as a misuse of the patent right. But, let me ask this rhetorical question: If you are in the business of supplying electric equipment for furnaces and you are not in the furnace business, how are you going to enforce a patent of this type which is on the heating system? What can you do with it?* What value does it have to you unless you can go to the source of the thing which has no other use which instigates all of the infringements? It is the type of situation which occurs over and over again where contributory infringement is the only practical way to get any value from your patent. *I can see nothing wrong in that method of doing business.*

Mr. Willis. *Is that one of the permissive things granted by section 5?*

Mr. Rich. *Yes.*"*

Again, when Congressman Willis asked whether or not proposed Section 5 made adequately clear the line between what was misuse and what was permissible conduct, Mr. Rich replied:

> "Mr. Rich. I think that section 5 makes it perfectly clear what is left of misuse in this way: it says that certain things under the headings (a), (b) and (c) shall not be deemed to be misuse or illegal extension of the patent monopoly.
>
> Take the first one, (a), that the patent owner has derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent. To determine what that means you will have to look at the rest of the bill and see what we say shall be considered to be contributory infringement now and if he has derived revenue, for example, by selling these elements *with an implied license, obtaining a little extra profit because of his protection granted under his patent, then that shall not be misuse.*"**

That was the conduct proscribed by the holding in *Mercoid,* and that is the conduct in which Rohm and Haas has engaged. It is "perfectly clear," in Mr. Rich's words to Congressman Willis, that Section 271(d)(1) was intended to permit that conduct.

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* 1949 Hearings, p. 69.

** 1949 Hearings, pp. 70 and 71.

B. Congress intended Section 271 to draw a clear line between actionable contributory infringement and application of the misuse doctrine.

The line legislated by Section 271(c) and (d) between actionable contributory infringement and misuse cut clearly between (1) deriving revenue from, licensing or suing for contributory infringement with respect to non-staples as defined in 271(c), and (2) deriving revenue from, licensing and suing for contributory infringement with respect to staples outside the scope of 271(c).* It was plainly drawn at the outset of the 1948 hearings by Giles Rich:

> "Now, following the Carbice case, several other cases came to the Supreme Court in which they also applied the doctrine, taking these cases up on certiorari, because they wished to apply it, until finally in 1944 we come to the Mercoid cases.
>
> * * *
>
> Now, in the Mercoid cases, the court assumed that the defendant was a contributory infringer. They specifically so stated. But then they said that where there is a collision between this doctrine of contributory infringement and the misuse doctrine, the latter must prevail.
>
> * * *
>
> So our view, and we set to work to draft this bill, was that contributory infringement as a useful doctrine is dead and with it the enforcibility of many perfectly valid and very useful patents. *The bill was designed to correct this situation without giving sanction to practices such as those in the Carbice case.*"**

* We do not mean to suggest that conduct in the first category would be sheltered if the patentee was engaged in price fixing or comparable conduct violating the antitrust laws and not within the purview of Section 271.

** 1948 Hearings, pp. 10 and 11.

The issue was posed throughout the testimony as it had been framed in *Mercoid,* namely that "[w]here there is a collision between the principles of the *Carbice* case and the conventional rules governing either direct or contributory infringement, the former prevails," 320 U.S. at p. 669. This recognition of a collision between the two competing doctrines is irreconcilable with the Government's view because that view refuses to recognize the line that the "collision" led Congress to draw was a line defined by the scope of contributory infringement in 271(c), *not* by an implied limitation on the patentee's conduct sanctioned by 271(d)(1).

Congressional understanding of this line is reflected in the following colloquy between Congressman Willis and Mr. Stedman of the Department of Justice:

> "Mr. Willis. The trouble in my mind is that the Supreme Court held in the Mercoid cases that in the event of a clash between the two doctrines the contributory infringement doctrine must yield to the misuse doctrine.
>
> * * *
>
> The final point which I would like to lead up to is this: Do you believe that the passage of this act would result in Congress choosing between the two doctrines and going overboard in favor of the contributory infringement doctrine too narrowly, when you and I feel that we have use for both doctrines?
>
> Mr. Stedman. Mr. Chairman, if we did not feel that there was a very real danger of that, we would not be here. That is our chief concern.*

* 1949 Hearings, p. 57.

The same distinction was again emphasized by Mr. Rich, responding to Mr. Stedman:

> "Now as to section 5. For the most part I agree with everything Mr. Stedman has said in his interpretation of that section, but it seems to me that he ignores the fact that that section is limited to contributory infringement as defined in the preceding parts of the bill.
>
> * * *
>
> As I tried to make clear the last time, it is absolutely necessary, to get anywhere in this direction we are trying to go, to make some exception to the misuse doctrine because it is the conflict between the doctrine of contributory infringement and the doctrine of misuse that raises the problem. The court in Mercoid theoretically did not touch contributory infringement, they merely said where it conflicts with misuse, the misuse must control. How are you going to put any contributory infringement, which I said no longer exists, back into the picture?
>
> I previously stated, and I wish to reiterate it, that section 5 is the most important part of the bill from the standpoint of accomplishing our purpose. The exception which we wish to make to the misuse doctrine would reverse the result in the Mercoid case; it would not reverse the result in the Carbice case.
>
> Mr. Willis. Say that again, because that is the question that I am intrigued with.
>
> Mr. Rich. The exception which we would make to the misuse doctrine would reverse the result in the Mercoid case as we read it, as logically abolishing contributory infringement.
>
> Mr. Willis. All right, what would the bill do to the misuse doctrine? Would it preserve it and to what extent?
>
> Mr. Rich. It would preserve it in such cases as the Carbice case or the Barber Asphalt case, where the things dealt with are staple commodities of commerce and not especially for use in infringement of patents."*

Additional light is shed on the line sought to be drawn by Congress by a specific example of conduct that would not be permissible under the proposed legislation. In an exchange between Mr. Rich and Representative Rogers concerning the scope of contributory infringement and the continued existence of the misuse doctrine beyond that scope, Mr. Rich explained that if the patentee

> ". . . tries to license somebody, for instance, to manufacture a *staple* article of commerce, to be sold in a patented invention and collect royalties, let us say, for the manufacturing of salt tablets to be used in a patented vending machine or dry ice to be used in a patented shipping container, that will be misuse because it doesn't come within the terms of [Section 271(c)]."**

These testimonial excerpts coupled with the carefully reasoned analysis of the Court of Appeals, relying on other excerpts from the congressional testimony, 599 F.2d at 699-703, compel the conclusion that the line drawn by Congress between permissible and impermissible conduct, previously held by the Court to constitute illegal tying irrespective of whether or not the articles sought to be controlled were staple or non-staple goods, was one limiting application of the misuse doctrine to circumstances beyond the scope of paragraph (c) and sheltering the patentee from the misuse doctrine with respect to sales of goods within the scope of that paragraph. That line runs directly athwart the boundary sought to be established here by Dawson and the Department of Justice.

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* 1949 Hearings, pp. 67 and 68.

** 1951 Hearings, p. 175.

C. Congress expressly rejected in the 1952 Patent Act the compulsory licensing sought here by Dawson.

Legislative activity to revise and codify the patent laws was initiated in 1950 by compilation of a preliminary draft bill entitled "Proposed Revision and Amendment of the Patent Laws." This draft included the then existing code provisions together with additional proposals derived from a study of all relevant bills introduced in Congress since 1925.* Section 66 of the proposed revision, entitled "License Conditions in Contract," provided in part:

> "(b) *Any condition of any contract for license to* make, *use* or sell *a patented invention,* or for the sale or lease of a patented article, or relating to any such license, sale or lease, *shall be void to the extent that it* . . . (2) *prohibits the licensee,* purchaser or lessor *from using any article not supplied by . . . the licensor,* vendor or restricts the right of the licensee, purchaser or lessee to use any such article or process.
>
> * * *
>
> (d) A condition of a contract shall not be void by reason of paragraph (b)(1) and (2) *if* at the time of making the contract *the licensor,* vendor or lessor *was willing to grant the license* or sell or lease the article on reasonable terms *without any such condition* and the licensee, purchaser or lessee is entitled under the contract upon reasonable notice to relieve himself of his liability to observe the condition and substitute therefor a reasonable specified alternative condition."

Section 66(b) appears to proscribe Rohm and Haas' conduct unless Rohm and Haas were to sell propanil, as provided in subsection (d), without the condition that the

* 1951 Hearings, p. 21.

purchaser not buy propanil from any other source. That is the outcome sought here by Dawson.

An additional section of the Proposed Revision, entitled "Compulsory Licenses," provided in part that:

> "Any person may apply to the Commissioner of Patents for the grant of a license under a particular patent at any time after the expiration of three years from the grant of the patent, under any of the following circumstances:
>
> * * *
>
> (c) If by reason of conditions attached by the patentee to licenses under the patent, or to the purchase, lease or use of the patented article or process, the manufacture, use or sale of materials not protected by the patent is unreasonably restrained or if the patent has been used to unreasonably restrain trade beyond the actual rights conferred by the patent."

This section may well have been construed to require the very compulsory licensing that Dawson would have this Court enact judicially. The infringement provision of the Proposed Revision, section 72, was consistent with the foregoing provisions for it contained nothing along the lines of the present Subsection 271(c) and (d).*

The fact is, however, that these provisions and the policy inhering in them were rejected by Congress in favor of the policy reflected in Section 271. The preliminary draft was widely distributed with a request for criticisms and suggestions. Based upon the comments received, the committee chose to reject these proposed provisions in

* A copy of the foregoing provisions is annexed hereto as Appendix A.

favor of the present statutory structure, which was incorporated in H.R. 9133 and then, after distribution of and receipt of comments with respect to that bill, in H.R. 3760, which was enacted as the present title 35 U.S.C. (1951 Hearings, p. 21).

This conscious Congressional rejection of compulsory licensing, even as a remedy for what the statute would have defined as abuses of the patent grant, is irreconcilable with any Congressional intent to sanction the compulsory licensing requirement sought here by Dawson. The foregoing excerpts and the entirety of the legislative history overwhelmingly provides the "clear signal" of Congress required by this Court to change the pre-existing law as it had been established in *Mercoid.**

III.

The decision reached by the Court of Appeals is fully consistent with public policy.

A. The result sought by amicus is consistent with antitrust policy.

The result sought by amicus in this case is fully consistent with the public policy of the United States as expressed in the Antitrust Laws. In this case it is the policy of the Antitrust Laws to prohibit tying that Dawson and

* *Deepsouth Packing Co., Inc.* v. *Laitram Corp.*, 406 U.S. 518 (1972). In *Deepsouth*, a majority of the Court failed to find any clear signal of congressional intent to change the pre-existing rule that the entire combination claimed as the invention must be assembled in this country before there can be an infringement. Whatever support the legislative history may have provided for the change in the law sought to be established in *Deepsouth*, it cannot compare with the overwhelming support for amicus' position here.

the Government invoke to limit the application of Section 271. But there can be no tying as a matter of definition unless there are in fact separate tying and tied products. *Times-Picayune Publishing Company* v. *United States*, 345 U.S. 594, 622-23 (1953). It has been held in this regard that there is not sufficient separateness of products to warrant application of the tying doctrine as between the morning and afternoon editions of a newspaper (*Times-Picayune*); weekday and Saturday editions of a newspaper (*Paul et al.* v. *Pulitzer Publishing Co.*, 1974-1 Trade Cases [¶75,116], (E.D.Mo. 1974); the "Shell" trademark and gasoline sold under it (*Redd* v. *Shell Oil Co.*, 524 F.2d 1054 (10th Cir. 1975), *cert. den.* 425 U.S. 912 (1976); mortgage loans and attendant legal services (*Forrest* v. *Capital Buildings & Loan Association*, 385 F.Supp. 831 (M.D. La. 1973), *aff'd*, 504 F.2d 891 (5th Cir. 1974), *cert. den.* 421 U.S. 978 (1975)); the several elements of a package provided to stores under a franchise arrangement (*In re: 7-Eleven Antitrust Litigation*, 1974-2 Trade Cases [¶75,429] (N.D. Cal. 1974)); and a franchise and related advertising requirements (*Kugler* v. *Aamco Automatic Transmissions Inc.*, 337 F.Supp. 872, 876 (D. Minn. 1971), *aff'd*, 460 F.2d 1214 (8th Cir. 1972).*

While the standards set down for determining whether there are separate products or a single product for purposes of tying analysis are not entirely clear,** we submit

* But see *Fortner Enterprises Inc.* v. *U.S. Steel Corp. et al.*, 394 U.S. 495 (1969), holding that the sale of prefabricated buildings and credit for the purchase of those buildings extended by a separate corporation were separate products for purposes of tying analysis.

** See Mr. Justice Black's comment in *Fortner*: "Whatever the standards for determining exactly when a transaction involves only a 'single product', we cannot see how an arrangement such as that present in this case could ever be said to involve only a single product." 394 U.S. at 507.

that this is an appropriate case to discern but a single product. Rohm and Haas' patent covers the only known use of propanil and involves merely the application of that product to certain crops. Propanil, on the other hand, has no use whatsoever apart from its use in the process. Product and process in this case are but two faces of the same coin, both logically and in the marketplace. Because they are thus inextricably interrelated, it would strain the application of the tying concept to define them as separate for purposes of antitrust analysis. This is consistent with the test enunciated in *Washington Gas Light Co.* v. *Virginia Electric & Power Co.*, 438 F.2d 248, 253 (4th Cir. 1951): "That there are not dual markets strongly suggests that there are not separate products." Plainly, there is no market for propanil apart from its use in the patented process, and conversely there is no market for the patented process without propanil.

Indeed, a leading commentator has urged in this respect that "one must take into account the patent laws, which grant some minimum of substantial rights that bear on the question of product definition."* This approach is also consistent with the intent and effect of Section 271, which was to give every patentee within the scope of Section 271(c) the right to protect his grant beyond the narrow confines of the patent claims. Indeed, it is fundamental that the essence of contributory infringement is an acknowledgement of the scope of the patent grant beyond the confines of the claims. The effect is no different than if each patent susceptible of being contributorily infringed were to con-

* Turner, "The Validity of Tying Arrangement Under the Antitrust Laws, 72 Harv. L. Rev. 50, p. 68 (1958).

tain a separate claim having a scope defined by Section 271(c), assertible against sellers of articles or components, the sale of which would constitute contributory infringement. For that reason, the endless references in the Government's brief to "unpatented" subject matter is a misnomer, indeed a misuse, of the term; it is a red herring harking back to an era brought to a close by the 1952 Patent Act.*

It is also significant that any "tie-in" in the context of Section 271 could not merely be enjoined; an affirmative decree would be necessary not only to compel licensing but to establish the terms of each license. As one commentator has pointed out:

> "In the ordinary tie-in case, where the foreclosed competitors are producing the tied product, the restraint is removed simply by prohibiting the tie-in. No compulsory-dealing provision is required, since it may be presumed that the patentee will not sulk, but will sell his tying product without the tie-in, leaving competitors free to compete in the sale of the formerly tied product. But in our example the restraint can be removed only by a decree compelling the patentee to sell the component to the 'foreclosed' competitors. There are at least two good reasons for stopping short of giving them *this* protection. One is administrative. Such a decree requires virtually a public-utility type

* It is not misuse for a patentee to sell a machine constituting a complete combination as claimed in his patent, which of course carries an implied right to use the machine, even though no use licenses are granted except to purchasers of the combination from the patentee. That is not a "tie-in" of the patentee's machine sales to the right to use the machine because the rights both to sell and use the machine are within the scope of the patent grant. Equally, Rohm and Haas' sales of propanil are not "tied" to the use of propanil in its patented process because both are fully within the scope of the patent grant as set forth in Section 271.

of regulation: There must be some limit on the price at which the component is sold to competitors, for-otherwise the patentee could achieve the same exclusionary effect by pricing the item so high that they could not compete in the sale of the finished product. The almost insoluble problem of determining a 'fair' price need hardly be spelled out. But more important, such a decree goes far beyond the protection of competition on the merits—it compels the inventive manufacturer to raise the 'merits' of his competitors' products by distributing the fruits of his own progressiveness to them. This is questionable policy even if a patent were not involved.''*

B. Requiring compulsory licensing of Rohm and Haas' patent would cut against the public interest.

Congress has time and again been presented with and rejected the concept of plenary compulsory licensing. First proposed as early as 1790, it was again introduced in 1877, in 1952 and, more recently, in several proposals during the 1970's.** Apart from specific exceptions to Congressional policy expressly carved out in the fields of atomic energy, air pollution control, plant variety protection and the

* Turner, *supra*, 72 Harv. L. Rev. at pp. 69-70 (emphasis in original) (footnotes omitted). The example referred to involved a manufacturer of radio receiving sets who had a patent on a transformer which he sold only as part of the complete receiver, thereby driving competing radio producers from a substantial part of the radio market. The result is the same whether a decree forces a manufacturer to sell a product to competitors, as in the example, or to license competitors to make the produce, as in the case at bar.

** See, e.g., Subcommittee on Patents, Trademarks and Copyrights of the Senate Committee on the Judiciary: Compulsory Licensing of Patents Under Some Non-American Systems, Study No. 19, 85th Cong., 2d Sess. 1, 2 (1959); S.1283, 93d Cong., 1st Sess. (1973); S.2176, 93d Cong., 1st Sess. (1973); S.814, 94th Cong., 1st Sess. (1975); H.R. 44 and H.R. 46, 95th Cong., 1st Sess. (1977); and S.2040, 95th Cong., 1st Sess. (1977).

Government's own entitlement to what is in effect a compulsory license under its eminent domain powers,* attempts to legislate compulsory licensing generally have met with failure for over two centuries. If imposed by this Court it would create both a disincentive to innovation and a significant volume of litigation to determine in each case, for each license applicant, what a reasonable royalty would be.**

It would be inappropriate to create here a disincentive to industrial innovation at the very time when the President has recommended a strong program of initiatives to promote innovation.† Taking into specific account the current severe inflation and its effect in discouraging managers in the private sector from spending the sums needed for adequate industrial innovation, the President mandated changes in the patent system to achieve that goal, including a uniform patent policy to grant either title or exclusive licenses to private contractors in inventions developed under government contracts.

This constitutes recognition at the highest levels of government of an important public policy emphasizing the

* See, The Atomic Energy Act of 1954 (42 U.S.C. 2011 *et seq.* (1959)), Clean Air Act of 1970 (42 U.S.C. 7401-7642 (1970, as amended 1974)), Plant Variety Protection Act (7 U.S.C. 2321-2583 (1970)) and 28 U.S.C. 1498.

** We note in passing that the compulsory licensing sought by Dawson as a *contributory* infringer results from the impracticability of granting licenses to farmers, whose use of Dawson's propanil constitutes direct infringement of Rohm and Haas' patent. This case does *not* present a situation where it is practical to license *direct* infringers. Licensing direct infringers would allow them to purchase propanil from any source; in that situation, which is not before the Court, there would be no basis for requiring licensing of *contributory* infringers.

† Remarks of the President on Innovation Initiatives, October 31, 1979.

exclusivity of rights granted innovators by the patent system. That public policy is worthy of recognition by this Court. Antitrust policy should be construed to complement rather than to undermine it. To render those rights non-exclusive in a significant class of developments, as sought here by Dawson and the Government, would necessarily undermine that policy. It would also reduce competition by encouraging a class of non-innovators who would await the development by others of new uses for existing materials and would then demand entree to the market created thereby. This rewards the non-contributor at the expense of the contributor and ultimately discourages development of new products and processes, resulting in reduced competition, fewer products and fewer jobs.

To the extent that companies like Dawson and Crystal may develop more efficient methods to produce propanil, they may elect to license those methods to Rohm and Haas, thereby benefiting both petitioners and the public. Moreover, the disclosure through the patent system of Rohm and Haas' use for propanil ought to stimulate others towards finding additional uses for propanil, for their own economic reward and to the public's benefit.

If Rohm and Haas chose to confine its use of propanil to itself rather than face compulsory licensing, that would certainly not benefit the public. Nor would the administration of justice generally be benefited by subjecting the courts to a new category of litigation to adjudicate what is a reasonable royalty in each instance.

Conclusion

For the foregoing reasons, the decision of the Court of Appeals should be affirmed.

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March 22, 1980

APPENDIX

PROPOSED REVISION AND AMENDMENT OF THE PATENT LAWS

PRELIMINARY DRAFT

WITH NOTES

COMMITTEE PRINT

Printed for the use of the Committee on the Judiciary
House of Representatives

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1950

§ 66. Licenses, conditions in contracts

(a) A patentee may grant licenses permitting making, using or selling the patented invention, in so far as his exclusive right is concerned, to the extent and subject to such conditions relating to such making, using or selling of the patented invention or to the patent as he may choose, subject to the provisions of this title.

(b) Any condition of any contract for license to make, use or sell a patented invention, or for the sale or lease of a patented article, or relating to any such license, sale or lease, shall be void to the extent that it (1) requires the licensee, purchaser, or lessee to acquire from the licensor, vendor or lessor or his nominees any articles other than the patented article, or (2) prohibits the licensee, purchaser or lessee from using any article not supplied by, or any process not belonging to, the licensor, vendor or lessor, or restricts the right of the licensee, purchaser or lessee to use any such article or process or (3) requires the licensee, purchaser or lessee to assign or otherwise give control of any invention made by or owned by him to the licensor, vendor or lessor.

(c) In any action for infringement of a patent it shall be a defense to prove that at the time of the infringement there was in force a contract, containing a condition declared void by this section, made by or with the consent of the plaintiff.

(d) A condition of a contract shall not be void by reason of paragraph (b) (1) and (2) if at the time of making the contract the licensor, vendor or lessor was willing to grant the license or sell or lease the article on reasonable terms without any such condition and the licensee, purchaser or lessee is entitled under the contract upon reasonable notice to relieve himself of his liability to observe the condition and substitute therefor a reasonable specified alternative condition.

(e) This section shall not render void any contract or condition with respect to sales agency or exclusive sales agency, or for the supply of parts, which would be valid without this section.

Note

This section brings up the subject of valid and invalid conditions in license agreements. The first paragraph is declaratory of a broad right to grant licenses. The second paragraph (except clause 3 which is new) is an expansion of section 3 of the Clayton Act (15 U. S. C. 14) to apply the licenses as well as to sales or leases and follows decisions of the courts in holding such conditions invalid. The third paragraph states the penalty which has been applied by the courts. The fourth and fifth paragraphs qualify part of the second paragraph.

§ 72. Infringement of patent

Any person who makes, uses or sells any patented machine, manufacture, composition of matter or improvement, or uses any patented process or improvement, within the territory of the United States and its Territories during the term of the patent therefor without authority, and any person who intentionally aids and abets any such unauthorized making, using or selling, infringes the patent and shall be liable to a civil action for infringement, except as otherwise provided in this title.

Note

The first part of this section is declaratory only, defining infringement. The second part defines contributory infringement in broad terms, recent legislative proposals on contributory infringement are: 80th Congress, H. R. 5988, hearings May 1948; 81st Congress, S. 2518, H. R. 3866, hearings May, June 1949, H. R. 6436.

2. Compulsory Licenses

1. Grounds for compulsory license

Any person may apply to the Commissioner of Patents for the grant of a license under a particular patent at any time after the expiration of three years from the grant of the patent, under any of the following circumstances:

(a) If the patented invention is not being worked in the United States on a commercial scale without reasonable justification.

(b) If the demand for the patented invention in the United States is not being met to an adequate extent without reasonable justification or is being met to a substantial extent by importation.

(c) If by reason of conditions attached by the patentee to licenses under the patent, or to the purchase, lease or use of the patented article or process, the manufacture, use or sale of materials not protected by the patent is unreasonably restrained or if the patent has been used to unreasonably restrain trade beyond the actual rights conferred by the patent.

(d) If the decree of a court in an action by the United States under the anti-trust laws has declared that the patent shall be available for licensing to any applicant on reasonable terms.

(e) If the use of the patented invention is necessary for public health or public safety.

(f) That the applicant for license is the patentee of an invention of an improvement on the patented invention which cannot be worked without utilizing the patented invention, provided that the improvement is a substantial and important contribution to the art and the applicant for license is willing and able to grant to the patentee and his licensees a license to use his improvement on reasonable terms.

In determining the existence of reasonable justification under paragraphs (a) and (b) there shall be considered, among other factors, the efforts of, and measures taken by, the patentee and whether sufficient time has elapsed since the date of the patent to work the invention or supply the market, considering the nature of the invention and the resources of the patentee.

Notes

This item brings up the controversial subject of compulsory licensing of patents. Paragraph (a) of section 1 recites the customary ground for grant of a compulsory license and both (a) and (b) would apply in the case of foreign owned United States patents when the invention was not being manufactured in the United States. Paragraph (c) is a possible remedy in the case of abuse of patents. Paragraph (d) relates to the existing power exercised by the courts in civil anti-trust actions. Paragraph (e) follows a recommendation of the National Patent Planning Commission (1943). Paragraph (f) is commonly found in laws of other countries. There have been numerous legislative proposals for compulsory licenses in this country.